

Macy's, Inc.  
Form 10-Q  
June 09, 2014

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 May 3, 2014

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)

Edgar Filing: Macy's, Inc. - Form 10-Q

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 May 30, 2014 |
|------------------------------------------|-----------------------------|
| Common Stock, \$0.01 par value per share | 360,432,076 shares          |

---

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

MACY'S, INC.

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(millions, except per share figures)

|                                              | 13 Weeks Ended |                |
|----------------------------------------------|----------------|----------------|
|                                              | May 3,<br>2014 | May 4,<br>2013 |
| Net sales                                    | \$6,279        | \$6,387        |
| Cost of sales                                | (3,836 )       | (3,911 )       |
| Gross margin                                 | 2,443          | 2,476          |
| Selling, general and administrative expenses | (2,000 )       | (2,041 )       |
| Operating income                             | 443            | 435            |
| Interest expense                             | (100 )         | (97 )          |
| Interest income                              | —              | —              |
| Income before income taxes                   | 343            | 338            |
| Federal, state and local income tax expense  | (119 )         | (121 )         |
| Net income                                   | \$224          | \$217          |
| Basic earnings per share                     | \$.61          | \$.56          |
| Diluted earnings per share                   | \$.60          | \$.55          |

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 |                |
|---------------------------------------------------------------------------------------------------------------------------|----------------|----------------|
|                                                                                                                           | May 3,<br>2014 | May 4,<br>2013 |
| Net income                                                                                                                | \$224          | \$217          |
| Other comprehensive income:                                                                                               |                |                |
| Amortization of net actuarial loss on post employment and postretirement benefit plans included in net income, before tax | 6              | 38             |
| Tax effect related to items of other comprehensive income                                                                 | (2 )           | (14 )          |
| Total other comprehensive income, net of tax effect                                                                       | 4              | 24             |
| Comprehensive income                                                                                                      | \$228          | \$241          |

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

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

(millions)

|                                                                                                           | May 3,<br>2014 | February 1,<br>2014 | May 4,<br>2013 |
|-----------------------------------------------------------------------------------------------------------|----------------|---------------------|----------------|
| <b>ASSETS</b>                                                                                             |                |                     |                |
| Current Assets:                                                                                           |                |                     |                |
| Cash and cash equivalents                                                                                 | \$1,878        | \$2,273             | \$1,752        |
| Receivables                                                                                               | 275            | 438                 | 295            |
| Merchandise inventories                                                                                   | 5,897          | 5,557               | 5,631          |
| Prepaid expenses and other current assets                                                                 | 454            | 420                 | 388            |
| Total Current Assets                                                                                      | 8,504          | 8,688               | 8,066          |
| Property and Equipment - net of accumulated depreciation and amortization of \$6,261, \$6,066 and \$6,148 | 7,792          | 7,930               | 8,063          |
| Goodwill                                                                                                  | 3,743          | 3,743               | 3,743          |
| Other Intangible Assets – net                                                                             | 519            | 527                 | 552            |
| Other Assets                                                                                              | 760            | 746                 | 616            |
| Total Assets                                                                                              | \$21,318       | \$21,634            | \$21,040       |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                                                               |                |                     |                |
| Current Liabilities:                                                                                      |                |                     |                |
| Short-term debt                                                                                           | \$8            | \$463               | \$124          |
| Merchandise accounts payable                                                                              | 2,390          | 1,691               | 2,426          |
| Accounts payable and accrued liabilities                                                                  | 2,220          | 2,810               | 2,134          |
| Income taxes                                                                                              | 105            | 362                 | 91             |
| Deferred income taxes                                                                                     | 381            | 400                 | 426            |
| Total Current Liabilities                                                                                 | 5,104          | 5,726               | 5,201          |
| Long-Term Debt                                                                                            | 7,175          | 6,728               | 6,797          |
| Deferred Income Taxes                                                                                     | 1,304          | 1,273               | 1,240          |
| Other Liabilities                                                                                         | 1,635          | 1,658               | 1,831          |
| Shareholders' Equity                                                                                      | 6,100          | 6,249               | 5,971          |
| Total Liabilities and Shareholders' Equity                                                                | \$21,318       | \$21,634            | \$21,040       |

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

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

(millions)

|                                                                                   | 13 Weeks Ended |             |
|-----------------------------------------------------------------------------------|----------------|-------------|
|                                                                                   | May 3, 2014    | May 4, 2013 |
| Cash flows from operating activities:                                             |                |             |
| Net income                                                                        | \$224          | \$217       |
| Adjustments to reconcile net income to net cash provided by operating activities: |                |             |
| Depreciation and amortization                                                     | 253            | 251         |
| Stock-based compensation expense                                                  | 21             | 17          |
| Amortization of financing costs and premium on acquired debt                      | (2)            | (2)         |
| Changes in assets and liabilities:                                                |                |             |
| Decrease in receivables                                                           | 163            | 78          |
| Increase in merchandise inventories                                               | (340)          | (323)       |
| Increase in prepaid expenses and other current assets                             | (31)           | (31)        |
| (Increase) decrease in other assets not separately identified                     | (14)           | 1           |
| Increase in merchandise accounts payable                                          | 628            | 754         |
| Decrease in accounts payable and accrued liabilities not separately identified    | (548)          | (454)       |
| Decrease in current income taxes                                                  | (256)          | (264)       |
| Increase in deferred income taxes                                                 | 8              | 5           |
| Increase (decrease) in other liabilities not separately identified                | (20)           | 49          |
| Net cash provided by operating activities                                         | 86             | 298         |
| Cash flows from investing activities:                                             |                |             |
| Purchase of property and equipment                                                | (63)           | (65)        |
| Capitalized software                                                              | (49)           | (50)        |
| Disposition of property and equipment                                             | 10             | 4           |
| Other, net                                                                        | 6              | 4           |
| Net cash used by investing activities                                             | (96)           | (107)       |
| Cash flows from financing activities:                                             |                |             |
| Debt repaid                                                                       | (5)            | (5)         |
| Dividends paid                                                                    | (92)           | (78)        |
| Increase (decrease) in outstanding checks                                         | (11)           | 44          |
| Acquisition of treasury stock                                                     | (403)          | (336)       |
| Issuance of common stock                                                          | 126            | 100         |
| Net cash used by financing activities                                             | (385)          | (275)       |
| Net decrease in cash and cash equivalents                                         | (395)          | (84)        |
| Cash and cash equivalents beginning of period                                     | 2,273          | 1,836       |
| Cash and cash equivalents end of period                                           | \$1,878        | \$1,752     |
| Supplemental cash flow information:                                               |                |             |
| Interest paid                                                                     | \$83           | \$70        |
| Interest received                                                                 | —              | —           |
| Income taxes paid (net of refunds received)                                       | 343            | 333         |

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



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

1. Summary of Significant Accounting Policies

Nature of Operations

Macy's, Inc. and subsidiaries (the "Company") is an omnichannel retail organization operating stores and Internet websites under two brands (Macy's and Bloomingdale's) that sell a wide range of merchandise, including apparel and accessories (men's, women's and children's), cosmetics, home furnishings and other consumer goods. The Company's operations include approximately 840 stores, including thirteen Bloomingdale's Outlets, in 45 states, the District of Columbia, Guam and Puerto Rico, as well as macys.com and bloomingdales.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 February 1, 2014 (the "2013 10-K"). The accompanying Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and notes thereto in the 2013 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 weeks ended May 3, 2014 and May 4, 2013, 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 weeks ended May 3, 2014 and May 4, 2013 (which do not include the Christmas season) are not necessarily indicative of such results for the full fiscal year.

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 weeks ended May 3, 2014 and May 4, 2013 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 table sets forth the computation of basic and diluted earnings per share:

|                                                                    | 13 Weeks Ended<br>May 3, 2014     |        | May 4, 2013   |        |
|--------------------------------------------------------------------|-----------------------------------|--------|---------------|--------|
|                                                                    | Net<br>Income                     | Shares | Net<br>Income | Shares |
|                                                                    | (millions, except per share data) |        |               |        |
| Net income and average number of shares outstanding                | \$224                             | 364.8  | \$217         | 387.0  |
| Shares to be issued under deferred<br>compensation and other plans |                                   | 1.1    |               | 1.2    |
|                                                                    | \$224                             | 365.9  | \$217         | 388.2  |
| Basic earnings per share                                           | \$.61                             |        | \$.56         |        |
| Effect of dilutive securities:                                     |                                   |        |               |        |
| Stock options, restricted stock and restricted stock units         |                                   | 6.7    |               | 6.3    |
|                                                                    | \$224                             | 372.6  | \$217         | 394.5  |
| Diluted earnings per share                                         | \$.60                             |        | \$.55         |        |

In addition to the stock options, restricted stock and restricted stock units reflected in the foregoing table, stock options to purchase 3.3 million shares of common stock, 179,000 shares of restricted stock and restricted stock units relating to 0.9 million shares of common stock were outstanding at May 3, 2014, but were not included in the computation of diluted earnings per share for the 13 weeks ended May 3, 2014 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 table, stock options to purchase 10.9 million shares of common stock, 237,000 shares of restricted stock and restricted stock units relating to 1.8 million shares of common stock were outstanding at May 4, 2013, but were not included in the computation of diluted earnings per share for the 13 weeks ended May 4, 2013 because their inclusion would have been antidilutive or they were subject to performance conditions that had not been met.

## 3. Financing Activities

The following table shows the detail of debt repayments:

|                                      | 13 Weeks Ended |             |
|--------------------------------------|----------------|-------------|
|                                      | May 3, 2014    | May 4, 2013 |
|                                      | (millions)     |             |
| 9.5% amortizing debentures due 2021  | \$2            | \$2         |
| 9.75% amortizing debentures due 2021 | 1              | 1           |
| Capital leases and other obligations | 2              | 2           |
|                                      | \$5            | \$5         |

During the 13 weeks ended May 3, 2014, the Company repurchased approximately 7.4 million shares of its common stock pursuant to existing stock purchase authorizations for a total of approximately \$432 million. As of May 3, 2014, the Company had \$1,000 million of authorization remaining under its share repurchase program. On May 14, 2014, the Company's board of directors approved an additional \$1,500 million in authorization to purchase common stock, bringing the Company's remaining authorization under its share repurchase program including this increase to \$2,500 million. 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.



## MACY'S, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

On May 23, 2014, the Company issued \$500 million aggregate principal amount of 3.625% senior unsecured notes due 2024. The Company intends to use the proceeds of this debt to retire \$453 million of 5.75% senior unsecured notes maturing July 15, 2014 and for general corporate purposes, which may include working capital, capital expenditures and the repurchase of common stock under its share repurchase program. As a result, this short-term debt was reclassified to long-term debt as of May 3, 2014.

## 4. Benefit Plans

The Company has a funded defined benefit plan ("Pension Plan") and defined contribution plans, which cover substantially all employees who work 1,000 hours or more in a year. Effective January 1, 2012, the Pension Plan was closed to new participants, with limited exceptions. The Company also has an unfunded defined benefit supplementary retirement plan ("SERP"), which provides benefits, for certain employees, in excess of qualified plan limitations. Effective January 2, 2012, the SERP was closed to new participants. After December 31, 2013, with limited exceptions, employees no longer earn future pension service credits under the Pension Plan and SERP, and retirement benefits attributable to service after that date are provided solely 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.

Expense related to matching contributions for the 401(k) defined contribution plan amounted to \$25 million and \$5 million for the 13 weeks ended May 3, 2014 and May 4, 2013, respectively, and the actuarially determined components of the net periodic benefit cost (income) are as follows:

|                                      | 13 Weeks Ended |                |
|--------------------------------------|----------------|----------------|
|                                      | May 3,<br>2014 | May 4,<br>2013 |
|                                      | (millions)     |                |
| Pension Plan                         |                |                |
| Service cost                         | \$2            | \$28           |
| Interest cost                        | 38             | 36             |
| Expected return on assets            | (61)           | (60)           |
| Recognition of net actuarial loss    | 6              | 35             |
| Amortization of prior service credit | —              | —              |
|                                      | \$(15)         | \$39           |
| Supplementary Retirement Plan        |                |                |
| Service cost                         | \$—            | \$2            |
| Interest cost                        | 8              | 8              |
| Recognition of net actuarial loss    | 1              | 4              |
| Amortization of prior service cost   | —              | —              |
|                                      | \$9            | \$14           |
| Postretirement Obligations           |                |                |
| Service cost                         | \$—            | \$—            |
| Interest cost                        | 2              | 3              |
| Recognition of net actuarial gain    | (1)            | (1)            |
| Amortization of prior service cost   | —              | —              |
|                                      | \$1            | \$2            |



## MACY'S, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

## 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:

|                                       | May 3, 2014 |                                                                                                       |                                                  |                                                    | May 4, 2013 |                                                                                                       |                                                  |                                                    |
|---------------------------------------|-------------|-------------------------------------------------------------------------------------------------------|--------------------------------------------------|----------------------------------------------------|-------------|-------------------------------------------------------------------------------------------------------|--------------------------------------------------|----------------------------------------------------|
|                                       | Total       | Fair Value Measurements<br>Quoted Prices<br>in Active<br>Markets for<br>Identical Assets<br>(Level 1) | Significant<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Total       | Fair Value Measurements<br>Quoted Prices<br>in Active<br>Markets for<br>Identical Assets<br>(Level 1) | Significant<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|                                       | (millions)  |                                                                                                       |                                                  |                                                    |             |                                                                                                       |                                                  |                                                    |
| Marketable equity and debt securities | \$91        | \$—                                                                                                   | \$91                                             | \$—                                                | \$64        | \$—                                                                                                   | \$64                                             | \$—                                                |

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:

|                | May 3, 2014                   |                 |            | May 4, 2013     |                 |            |
|----------------|-------------------------------|-----------------|------------|-----------------|-----------------|------------|
|                | Notional Amount<br>(millions) | Carrying Amount | Fair Value | Notional Amount | Carrying Amount | Fair Value |
| Long-term debt | \$6,973                       | \$7,145         | \$7,797    | \$6,578         | \$6,765         | \$7,536    |

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

## 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 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."

Edgar Filing: Macy's, Inc. - Form 10-Q

Condensed Consolidating Balance Sheets as of May 3, 2014, May 4, 2013 and February 1, 2014, the related Condensed Consolidating Statements of Comprehensive Income for the 13 weeks ended May 3, 2014 and May 4, 2013, and the related Condensed Consolidating Statements of Cash Flows for the 13 weeks ended May 3, 2014 and May 4, 2013 are presented on the following pages.

## MACY'S, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

## Condensed Consolidating Balance Sheet

As of May 3, 2014

(millions)

|                                              | Parent  | Subsidiary<br>Issuer | Other<br>Subsidiaries | Consolidating<br>Adjustments | Consolidated |
|----------------------------------------------|---------|----------------------|-----------------------|------------------------------|--------------|
| <b>ASSETS:</b>                               |         |                      |                       |                              |              |
| Current Assets:                              |         |                      |                       |                              |              |
| Cash and cash equivalents                    | \$1,425 | \$129                | \$324                 | \$—                          | \$1,878      |
| Receivables                                  | —       | 58                   | 217                   | —                            | 275          |
| Merchandise inventories                      | —       | 3,023                | 2,874                 | —                            | 5,897        |
| Prepaid expenses and other current assets    | —       | 94                   | 360                   | —                            | 454          |
| Income taxes                                 | 9       | —                    | —                     | (9                           | ) —          |
| Total Current Assets                         | 1,434   | 3,304                | 3,775                 | (9                           | ) 8,504      |
| Property and Equipment – net                 | —       | 4,481                | 3,311                 | —                            | 7,792        |
| Goodwill                                     | —       | 3,315                | 428                   | —                            | 3,743        |
| Other Intangible Assets – net                | —       | 91                   | 428                   | —                            | 519          |
| Other Assets                                 | 4       | 108                  | 648                   | —                            | 760          |
| Deferred income taxes                        | 20      | —                    | —                     | (20                          | ) —          |
| Intercompany Receivable                      | 28      | —                    | 3,306                 | (3,334                       | ) —          |
| Investment in Subsidiaries                   | 4,687   | 3,225                | —                     | (7,912                       | ) —          |
| Total Assets                                 | \$6,173 | \$14,524             | \$11,896              | \$(11,275                    | ) \$21,318   |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY:</b> |         |                      |                       |                              |              |
| Current Liabilities:                         |         |                      |                       |                              |              |
| Short-term debt                              | \$—     | \$6                  | \$2                   | \$—                          | \$8          |
| Merchandise accounts payable                 | —       | 1,086                | 1,304                 | —                            | 2,390        |
| Accounts payable and accrued liabilities     | 7       | 980                  | 1,233                 | —                            | 2,220        |
| Income taxes                                 | —       | 36                   | 78                    | (9                           | ) 105        |
| Deferred income taxes                        | —       | 301                  | 80                    | —                            | 381          |
| Total Current Liabilities                    | 7       | 2,409                | 2,697                 | (9                           | ) 5,104      |
| Long-Term Debt                               | —       | 7,154                | 21                    | —                            | 7,175        |
| Intercompany Payable                         | —       | 3,330                | 4                     | (3,334                       | ) —          |
| Deferred Income Taxes                        | —       | 576                  | 748                   | (20                          | ) 1,304      |
| Other Liabilities                            | 66      | 489                  | 1,080                 | —                            | 1,635        |
| Shareholders' Equity                         | 6,100   | 566                  | 7,346                 | (7,912                       | ) 6,100      |
| Total Liabilities and Shareholders' Equity   | \$6,173 | \$14,524             | \$11,896              | \$(11,275                    | ) \$21,318   |

MACY'S, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

## Condensed Consolidating Statement of Comprehensive Income

For the 13 Weeks Ended May 3, 2014

(millions)

|                                                          | Parent | Subsidiary<br>Issuer | Other<br>Subsidiaries | Consolidating<br>Adjustments | Consolidated |
|----------------------------------------------------------|--------|----------------------|-----------------------|------------------------------|--------------|
| Net sales                                                | \$—    | \$2,918              | \$5,470               | \$ (2,109 )                  | \$6,279      |
| Cost of sales                                            | —      | (1,886 )             | (4,046 )              | 2,096                        | (3,836 )     |
| Gross margin                                             | —      | 1,032                | 1,424                 | (13 )                        | 2,443        |
| Selling, general and administrative expenses             | (2 )   | (1,008 )             | (1,003 )              | 13                           | (2,000 )     |
| Operating income (loss)                                  | (2 )   | 24                   | 421                   | —                            | 443          |
| Interest (expense) income, net:                          |        |                      |                       |                              |              |
| External                                                 | —      | (100 )               | —                     | —                            | (100 )       |
| Intercompany                                             | —      | (58 )                | 58                    | —                            | —            |
| Equity in earnings of subsidiaries                       | 225    | 66                   | —                     | (291 )                       | —            |
| Income (loss) before income taxes                        | 223    | (68 )                | 479                   | (291 )                       | 343          |
| Federal, state and local income<br>tax benefit (expense) | 1      | 38                   | (158 )                | —                            | (119 )       |
| Net income (loss)                                        | \$224  | \$(30 )              | \$321                 | \$ (291 )                    | \$224        |
| Comprehensive income (loss)                              | \$228  | \$(26 )              | \$323                 | \$ (297 )                    | \$228        |



## MACY'S, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

## Condensed Consolidating Statement of Cash Flows

For the 13 Weeks Ended May 3, 2014

(millions)

|                                                                  | Parent  | Subsidiary<br>Issuer | Other<br>Subsidiaries | Consolidating<br>Adjustments | Consolidated |   |
|------------------------------------------------------------------|---------|----------------------|-----------------------|------------------------------|--------------|---|
| Cash flows from operating activities:                            |         |                      |                       |                              |              |   |
| Net income (loss)                                                | \$224   | \$(30                | ) \$321               | \$(291                       | ) \$224      |   |
| Equity in earnings of subsidiaries                               | (225    | ) (66                | ) —                   | 291                          | —            |   |
| Dividends received from subsidiaries                             | 167     | —                    | —                     | (167                         | ) —          |   |
| Depreciation and amortization                                    | —       | 113                  | 140                   | —                            | 253          |   |
| (Increase) decrease in working capital                           | 87      | (53                  | ) (418                | ) —                          | (384         | ) |
| Other, net                                                       | 5       | (15                  | ) 3                   | —                            | (7           | ) |
| Net cash provided (used) by operating activities                 | 258     | (51                  | ) 46                  | (167                         | ) 86         |   |
| Cash flows from investing activities:                            |         |                      |                       |                              |              |   |
| Purchase of property and equipment and capitalized software, net | —       | 1                    | (103                  | ) —                          | (102         | ) |
| Other, net                                                       | —       | 1                    | 5                     | —                            | 6            |   |
| Net cash provided (used) by investing activities                 | —       | 2                    | (98                   | ) —                          | (96          | ) |
| Cash flows from financing activities:                            |         |                      |                       |                              |              |   |
| Debt repaid                                                      | —       | (4                   | ) (1                  | ) —                          | (5           | ) |
| Dividends paid                                                   | (92     | ) —                  | (167                  | ) 167                        | (92          | ) |
| Common stock acquired, net of issuance of common stock           | (277    | ) —                  | —                     | —                            | (277         | ) |
| Intercompany activity, net                                       | (370    | ) 121                | 249                   | —                            | —            |   |
| Other, net                                                       | (49     | ) (23                | ) 61                  | —                            | (11          | ) |
| Net cash provided (used) by financing activities                 | (788    | ) 94                 | 142                   | 167                          | (385         | ) |
| Net increase (decrease) in cash and cash equivalents             | (530    | ) 45                 | 90                    | —                            | (395         | ) |
| Cash and cash equivalents at beginning of period                 | 1,955   | 84                   | 234                   | —                            | 2,273        |   |
| Cash and cash equivalents at end of period                       | \$1,425 | \$129                | \$324                 | \$—                          | \$1,878      |   |

## MACY'S, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

## Condensed Consolidating Balance Sheet

As of May 4, 2013

(millions)

|                                              | Parent  | Subsidiary<br>Issuer | Other<br>Subsidiaries | Consolidating<br>Adjustments | Consolidated |
|----------------------------------------------|---------|----------------------|-----------------------|------------------------------|--------------|
| <b>ASSETS:</b>                               |         |                      |                       |                              |              |
| Current Assets:                              |         |                      |                       |                              |              |
| Cash and cash equivalents                    | \$1,404 | \$43                 | \$305                 | \$ —                         | \$1,752      |
| Receivables                                  | —       | 50                   | 245                   | —                            | 295          |
| Merchandise inventories                      | —       | 2,909                | 2,722                 | —                            | 5,631        |
| Prepaid expenses and other current assets    | —       | 89                   | 299                   | —                            | 388          |
| Income taxes                                 | 36      | —                    | —                     | (36                          | ) —          |
| Total Current Assets                         | 1,440   | 3,091                | 3,571                 | (36                          | ) 8,066      |
| Property and Equipment – net                 | —       | 4,583                | 3,480                 | —                            | 8,063        |
| Goodwill                                     | —       | 3,315                | 428                   | —                            | 3,743        |
| Other Intangible Assets – net                | —       | 116                  | 436                   | —                            | 552          |
| Other Assets                                 | 4       | 69                   | 543                   | —                            | 616          |
| Intercompany Receivable                      | 566     | —                    | 3,095                 | (3,661                       | ) —          |
| Investment in Subsidiaries                   | 4,109   | 2,660                | —                     | (6,769                       | ) —          |
| Total Assets                                 | \$6,119 | \$13,834             | \$11,553              | \$ (10,466                   | ) \$21,040   |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY:</b> |         |                      |                       |                              |              |
| Current Liabilities:                         |         |                      |                       |                              |              |
| Short-term debt                              | \$—     | \$122                | \$2                   | \$ —                         | \$124        |
| Merchandise accounts payable                 | —       | 1,124                | 1,302                 | —                            | 2,426        |
| Accounts payable and accrued liabilities     | 71      | 821                  | 1,242                 | —                            | 2,134        |
| Income taxes                                 | —       | 49                   | 78                    | (36                          | ) 91         |
| Deferred income taxes                        | —       | 324                  | 102                   | —                            | 426          |
| Total Current Liabilities                    | 71      | 2,440                | 2,726                 | (36                          | ) 5,201      |
| Long-Term Debt                               | —       | 6,774                | 23                    | —                            | 6,797        |
| Intercompany Payable                         | —       | 3,661                | —                     | (3,661                       | ) —          |
| Deferred Income Taxes                        | 8       | 433                  | 799                   | —                            | 1,240        |
| Other Liabilities                            | 69      | 605                  | 1,157                 | —                            | 1,831        |
| Shareholders' Equity (Deficit)               | 5,971   | (79                  | ) 6,848               | (6,769                       | ) 5,971      |
| Total Liabilities and Shareholders' Equity   | \$6,119 | \$13,834             | \$11,553              | \$ (10,466                   | ) \$21,040   |

MACY'S, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

## Condensed Consolidating Statement of Comprehensive Income

For the 13 Weeks Ended May 4, 2013

(millions)

|                                                          | Parent | Subsidiary<br>Issuer | Other<br>Subsidiaries | Consolidating<br>Adjustments | Consolidated |
|----------------------------------------------------------|--------|----------------------|-----------------------|------------------------------|--------------|
| Net sales                                                | \$—    | \$3,034              | \$5,548               | \$ (2,195 )                  | \$6,387      |
| Cost of sales                                            | —      | (1,897 )             | (4,196 )              | 2,182                        | (3,911 )     |
| Gross margin                                             | —      | 1,137                | 1,352                 | (13 )                        | 2,476        |
| Selling, general and administrative expenses             | (3 )   | (1,050 )             | (1,001 )              | 13                           | (2,041 )     |
| Operating income (loss)                                  | (3 )   | 87                   | 351                   | —                            | 435          |
| Interest (expense) income, net:                          |        |                      |                       |                              |              |
| External                                                 | —      | (97 )                | —                     | —                            | (97 )        |
| Intercompany                                             | —      | (40 )                | 40                    | —                            | —            |
| Equity in earnings of subsidiaries                       | 219    | 55                   | —                     | (274 )                       | —            |
| Income before income taxes                               | 216    | 5                    | 391                   | (274 )                       | 338          |
| Federal, state and local income<br>tax benefit (expense) | 1      | 27                   | (149 )                | —                            | (121 )       |
| Net income                                               | \$217  | \$32                 | \$242                 | \$ (274 )                    | \$217        |
| Comprehensive income                                     | \$241  | \$56                 | \$252                 | \$ (308 )                    | \$241        |

## MACY'S, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

## Condensed Consolidating Statement of Cash Flows

For the 13 Weeks Ended May 4, 2013

(millions)

|                                                                  | Parent  | Subsidiary<br>Issuer | Other<br>Subsidiaries | Consolidating<br>Adjustments | Consolidated |
|------------------------------------------------------------------|---------|----------------------|-----------------------|------------------------------|--------------|
| Cash flows from operating activities:                            |         |                      |                       |                              |              |
| Net income                                                       | \$217   | \$32                 | \$242                 | \$ (274 )                    | \$217        |
| Equity in earnings of subsidiaries                               | (219 )  | (55 )                | —                     | 274                          | —            |
| Dividends received from subsidiaries                             | 161     | —                    | —                     | (161 )                       | —            |
| Depreciation and amortization                                    | —       | 118                  | 133                   | —                            | 251          |
| (Increase) decrease in working capital                           | (31 )   | 81                   | (290 )                | —                            | (240 )       |
| Other, net                                                       | 9       | 48                   | 13                    | —                            | 70           |
| Net cash provided by operating activities                        | 137     | 224                  | 98                    | (161 )                       | 298          |
| Cash flows from investing activities:                            |         |                      |                       |                              |              |
| Purchase of property and equipment and capitalized software, net | —       | (43 )                | (68 )                 | —                            | (111 )       |
| Other, net                                                       | —       | —                    | 4                     | —                            | 4            |
| Net cash used by investing activities                            | —       | (43 )                | (64 )                 | —                            | (107 )       |
| Cash flows from financing activities:                            |         |                      |                       |                              |              |
| Debt repaid                                                      | —       | (5 )                 | —                     | —                            | (5 )         |
| Dividends paid                                                   | (78 )   | —                    | (161 )                | 161                          | (78 )        |
| Common stock acquired, net of issuance of common stock           | (236 )  | —                    | —                     | —                            | (236 )       |
| Intercompany activity, net                                       | 91      | (173 )               | 82                    | —                            | —            |
| Other, net                                                       | (48 )   | (1 )                 | 93                    | —                            | 44           |
| Net cash provided (used) by financing activities                 | (271 )  | (179 )               | 14                    | 161                          | (275 )       |
| Net increase (decrease) in cash and cash equivalents             | (134 )  | 2                    | 48                    | —                            | (84 )        |
| Cash and cash equivalents at beginning of period                 | 1,538   | 41                   | 257                   | —                            | 1,836        |
| Cash and cash equivalents at end of period                       | \$1,404 | \$43                 | \$305                 | \$ —                         | \$1,752      |

## MACY'S, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

## Condensed Consolidating Balance Sheet

As of February 1, 2014

(millions)

|                                              | Parent  | Subsidiary<br>Issuer | Other<br>Subsidiaries | Consolidating<br>Adjustments | Consolidated |
|----------------------------------------------|---------|----------------------|-----------------------|------------------------------|--------------|
| <b>ASSETS:</b>                               |         |                      |                       |                              |              |
| Current Assets:                              |         |                      |                       |                              |              |
| Cash and cash equivalents                    | \$1,955 | \$84                 | \$234                 | \$ —                         | \$2,273      |
| Receivables                                  | —       | 102                  | 336                   | —                            | 438          |
| Merchandise inventories                      | —       | 2,896                | 2,661                 | —                            | 5,557        |
| Prepaid expenses and other current assets    | —       | 103                  | 317                   | —                            | 420          |
| Income taxes                                 | 80      | —                    | —                     | (80 )                        | —            |
| Total Current Assets                         | 2,035   | 3,185                | 3,548                 | (80 )                        | 8,688        |
| Property and Equipment – net                 | —       | 4,590                | 3,340                 | —                            | 7,930        |
| Goodwill                                     | —       | 3,315                | 428                   | —                            | 3,743        |
| Other Intangible Assets – net                | —       | 97                   | 430                   | —                            | 527          |
| Other Assets                                 | 4       | 101                  | 641                   | —                            | 746          |
| Deferred Income Taxes                        | 19      | —                    | —                     | (19 )                        | —            |
| Intercompany Receivable                      | —       | —                    | 3,561                 | (3,561 )                     | —            |
| Investment in Subsidiaries                   | 4,625   | 3,157                | —                     | (7,782 )                     | —            |
| Total Assets                                 | \$6,683 | \$14,445             | \$11,948              | \$ (11,442 )                 | \$21,634     |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY:</b> |         |                      |                       |                              |              |
| Current Liabilities:                         |         |                      |                       |                              |              |
| Short-term debt                              | \$ —    | \$461                | \$2                   | \$ —                         | \$463        |
| Merchandise accounts payable                 | —       | 760                  | 931                   | —                            | 1,691        |
| Accounts payable and accrued liabilities     | 10      | 1,265                | 1,535                 | —                            | 2,810        |
| Income taxes                                 | —       | 80                   | 362                   | (80 )                        | 362          |
| Deferred income taxes                        | —       | 315                  | 85                    | —                            | 400          |
| Total Current Liabilities                    | 10      | 2,881                | 2,915                 | (80 )                        | 5,726        |
| Long-Term Debt                               | —       | 6,708                | 20                    | —                            | 6,728        |
| Intercompany Payable                         | 362     | 3,199                | —                     | (3,561 )                     | —            |
| Deferred Income Taxes                        | —       | 544                  | 748                   | (19 )                        | 1,273        |
| Other Liabilities                            | 62      | 522                  | 1,074                 | —                            | 1,658        |
| Shareholders' Equity (Deficit)               | 6,249   | 591                  | 7,191                 | (7,782 )                     | 6,249        |
| Total Liabilities and Shareholders' Equity   | \$6,683 | \$14,445             | \$11,948              | \$ (11,442 )                 | \$21,634     |

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 "first quarter of 2014" and "first quarter of 2013" are to the Company's 13-week fiscal periods ended May 3, 2014 and May 4, 2013, 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 2013 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 2013 10-K (particularly in "Risk Factors").

Overview

The Company is an omnichannel retail organization operating stores and websites under two brands (Macy's and Bloomingdale's) that sell a wide range of merchandise, including apparel and accessories (men's, women's and children's), cosmetics, home furnishings and other consumer goods. The Company's operations include approximately 840 stores, including thirteen Bloomingdale's Outlets, in 45 states, the District of Columbia, Guam and Puerto Rico, as well as macys.com and bloomingdales.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 is 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 computers 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 selecting merchandise from other stores or online fulfillment centers for shipment to the customer's door. Likewise, the Company's online fulfillment centers can draw on store inventories nationwide to fill orders that originate online, via computers or mobile devices. As of May 2014, nearly all Macy's stores are fulfilling orders from other stores and/or online, compared to 500 Macy's stores as of February 1, 2014. Also, by August of 2014, nearly all stores are expected to be fulfilling orders for pick-up related to online purchases. 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.

The Company did not open any new stores during the first quarter of 2014, but intends to open three new Macy's stores and one Bloomingdale's replacement store in the remainder of fiscal 2014. During the first quarter of 2013, the Company opened one new Macy's store and also expanded into an additional Macy's location in an existing mall. 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, a slowly improving housing market, a rising stock market, uncertainty regarding governmental spending and tax policies, high unemployment levels and tightened consumer credit. 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.



## MACY'S, INC.

The effects of economic conditions have been, and may continue to be, experienced differently, or at different times, in the various geographic regions in which the Company operates, in relation to the different types of merchandise that the Company offers for sale, or in relation to the Company's Macy's-branded and Bloomingdale's-branded operations. All economic conditions, however, ultimately affect the Company's overall operations.

Based on its assessment of current and anticipated market conditions and its recent performance, the Company is assuming that its comparable sales in fiscal 2014 will increase in the range of 2.5% to 3.0% from 2013 levels and that its diluted earnings per share in fiscal 2014 will be in the range of \$4.40 to \$4.50.

## Results of Operations

## Comparison of the First Quarter of 2014 and the First Quarter of 2013

|                                                 | First Quarter of 2014 |            | First Quarter of 2013 |            |
|-------------------------------------------------|-----------------------|------------|-----------------------|------------|
|                                                 | Amount                | % to Sales | Amount                | % to Sales |
| (dollars in millions, except per share figures) |                       |            |                       |            |
| Net sales                                       | \$6,279               |            | \$6,387               |            |
| Increase (decrease) in sales                    | (1.7                  | ) %        | 4.0                   | %          |
| Increase (decrease) in comparable sales         | (1.6                  | ) %        | 3.8                   | %          |
| Cost of sales                                   | (3,836                | )          | (3,911                | )          |
| Gross margin                                    | 2,443                 | 38.9 %     | 2,476                 | 38.8 %     |
| Selling, general and administrative expenses    | (2,000                | )          | (2,041                | )          |
| Operating income                                | 443                   | 7.1 %      | 435                   | 6.8 %      |
| Interest expense - net                          | (100                  | )          | (97                   | )          |
| Income before income taxes                      | 343                   |            | 338                   |            |
| Federal, state and local income tax expense     | (119                  | )          | (121                  | )          |
| Net income                                      | \$224                 | 3.6 %      | \$217                 | 3.4 %      |
| Diluted earnings per share                      | \$ .60                |            | \$ .55                |            |

## Net Income

Net income for the first quarter of 2014 increased \$7 million or 3.2% compared to the first quarter of 2013, reflecting a higher gross margin rate and lower selling, general and administrative expenses in dollars and rate, partially offset by the impact of lower net sales in the first quarter of 2014.

## Net Sales

Net sales for the first quarter of 2014 decreased \$108 million or 1.7% compared to the first quarter of 2013. On a comparable basis, net sales for the first quarter of 2014 were down 1.6% compared to the first quarter of 2013. Together with sales of departments licensed to third parties, first quarter of 2014 sales on a comparable basis were down 0.8%. (See page 20 for information regarding the Company's calculation of comparable sales, a reconciliation of the non-GAAP measure which takes into account sales of departments licensed to third parties to the most comparable GAAP measure and other important information.) Sales in the first quarter of 2014 were negatively impacted by a shift in the timing of a promotional event such that a portion of the resultant sales occurred after the end of the first quarter of 2014, as well as the weather. Geographically, sales in the first quarter of 2014 were stronger in the southern regions, which were impacted to a lesser degree by the weather. By family of business, sales in the first quarter of 2014 were stronger in handbags, impulse apparel for the millennial customer, active, kids and intimate apparel. There was positive momentum in juniors sales in the first quarter of 2014, and also sales of departments licensed to third parties performed well. Sales in the first quarter of 2014 were weakest in the home categories, including big ticket.



MACY'S, INC.

Cost of Sales

Cost of sales for the first quarter of 2014 decreased \$75 million and the cost of sales rate as a percent to net sales of 61.1% was 10 basis points lower, compared to the first quarter of 2013. 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

Selling, general and administrative ("SG&A") expenses for the first quarter of 2014 decreased \$41 million or 2.0% from the first quarter of 2013. The SG&A rate as a percent to net sales of 31.8% was 20 basis points lower in the first quarter of 2014, as compared to the first quarter of 2013. SG&A expenses in the first quarter of 2014 benefited from lower retirement expenses (including Pension Plan, SERP and 401(k) expenses), the impact of the cost reduction initiatives implemented at fiscal 2013 year-end, higher income from credit operations, lower expense in sales variable areas, and lower advertising expenses due to a timing shift of advertising spend which will impact the remainder of fiscal 2014, partially offset by the continued investments in the Company's omnichannel operations. Retirement expenses were \$19 million in the first quarter of 2014, compared to \$58 million in the first quarter of 2013. Income from credit operations was \$171 million in the first quarter of 2014, compared to \$166 million in the first quarter of 2013, reflecting continued profitability of the portfolio.

Net Interest Expense

Net interest expense for the first quarter of 2014 increased \$3 million from the first quarter of 2013. The increase in net interest expense for the first quarter of 2014 was due to higher levels of outstanding borrowings as compared to the first quarter of 2013.

Effective Tax Rate

The Company's effective tax rate of 34.7% for the first quarter of 2014 and 35.8% for the first quarter of 2013 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 including 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 (e.g. the conversion in 2013 of most of the Company's previously owned athletic footwear business to licensed Finish Line shops).

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 these non-GAAP financial measures 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 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.

|                                                                                                                                 | First Quarter<br>of 2014 |    | First Quarter<br>of 2013 |   |
|---------------------------------------------------------------------------------------------------------------------------------|--------------------------|----|--------------------------|---|
| Increase (decrease) in comparable sales (note 1)                                                                                | (1.6                     | )% | 3.8                      | % |
| Impact of growth in comparable sales of departments licensed to third parties (note 2)                                          | 0.8                      | %  | 0.6                      | % |
| Increase (decrease) in comparable sales including impact of growth in comparable sales of departments licensed to third parties | (0.8                     | )% | 4.4                      | % |

## Notes:

- Represents the period-to-period percentage change in net sales from stores in operation throughout 2014 and 2013 and all net Internet sales, excluding commissions from departments licensed to third parties. Stores undergoing (1) 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.
- Represents the impact on comparable sales of including the sales of departments licensed to third parties occurring in stores in operation throughout 2014 and 2013 and via the Internet in the calculation. The Company licenses third parties to operate certain departments in its stores and online and receives commissions from these third parties (2) based on a percentage of their net sales. In its financial statements prepared in conformity with GAAP, the Company includes these commissions (rather than 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.

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 the first quarter of 2014 was \$86 million, compared to \$298 million provided in the first quarter of 2013, due to lower merchandise payables relating to the timing of inventory receipts and the payout of costs associated with the cost reduction initiatives implemented at fiscal 2013 year-end.

Investing Activities

Net cash used by investing activities was \$96 million for the first quarter of 2014, compared to net cash used by investing activities of \$107 million for the first quarter 2013. Investing activities for the first quarter of 2014 include purchases of property and equipment totaling \$63 million and capitalized software of \$49 million, compared to purchases of property and equipment totaling \$65 million and capitalized software of \$50 million for the first quarter of 2013.

Financing Activities

On May 23, 2014, the Company issued \$500 million aggregate principal amount of 3.625% senior unsecured notes due 2024. The Company intends to use the proceeds of this debt to retire \$453 million of 5.75% senior unsecured notes maturing July 15, 2014 and for general corporate purposes, which may include working capital, capital expenditures and the repurchase of common stock under its share repurchase program. As a result, this short-term debt was reclassified to long-term debt as of May 3, 2014.

On May 14, 2014, the Company's board of directors declared a quarterly dividend of 31.25 cents per share on its common stock, payable July 1, 2014 to Macy's shareholders of record at the close of business on June 13, 2014. This dividend is an increase from the previous quarterly dividend rate of 25 cents per share and represents the fourth increase in the dividend in the past three years. Over that period, the quarterly dividend has increased more than six-fold from 5 cents per share to 31.25 cents per share.

Net cash used by the Company for financing activities was \$385 million for the first quarter 2014, including \$403 million for the acquisition of the Company's common stock, primarily under its share repurchase program, the payment of \$92 million of cash dividends, a decrease in outstanding checks of \$11 million, and the repayment of \$5 million of debt, partially offset by \$126 million from the issuance of common stock, primarily related to the exercise of stock options.

During the first quarter of 2014, the Company repurchased approximately 7.4 million shares of its common stock pursuant to existing stock purchase authorizations for a total of approximately \$432 million. As of May 3, 2014, the Company had \$1,000 million of authorization remaining under its share repurchase program. On May 14, 2014, the Company's board of directors approved an additional \$1,500 million in authorization to purchase common stock, bringing the Company's remaining authorization under its share repurchase program including this increase to \$2,500 million. 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.

Net cash used by the Company for financing activities was \$275 million for the first quarter of 2013, including \$336 million for the acquisition of the Company's common stock, primarily under its share repurchase program, the payment of \$78 million of cash dividends and the repayment of \$5 million of debt, partially offset by \$100 million from the issuance of common stock, primarily related to the exercise of stock options, and an increase in outstanding checks of \$44 million.

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 first quarter of 2014 was 9.37 and its leverage ratio at May 3, 2014 was 1.85, in each case as calculated in accordance with the credit agreement.



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 May 3, 2014, 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 February 1, 2014 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 first quarter of 2014.

|                                  | Total<br>Number<br>of Shares<br>Purchased<br>(thousands) | Average<br>Price per<br>Share (\$) | Number of Shares<br>Purchased under<br>Program (1)<br>(thousands) | Open<br>Authorization<br>Remaining (1)(\$)<br>(millions) |
|----------------------------------|----------------------------------------------------------|------------------------------------|-------------------------------------------------------------------|----------------------------------------------------------|
| February 2, 2014 – March 1, 2014 | 1                                                        | 57.32                              | —                                                                 | 1,432                                                    |
| March 2, 2014 – April 5, 2014    | 4,224                                                    | 58.71                              | 4,199                                                             | 1,185                                                    |
| April 6, 2014 – May 3, 2014      | 3,218                                                    | 57.72                              | 3,218                                                             | 1,000                                                    |
|                                  | 7,443                                                    | 58.28                              | 7,417                                                             |                                                          |

(1) Commencing in January 2000, the Company's board of directors has from time to time approved authorizations to purchase, in the aggregate, up to \$13,500 million of Common Stock as of May 3, 2014. All authorizations are cumulative and do not have an expiration date. As of May 3, 2014, \$1,000 million of authorization remained unused. On May 14, 2014, the Company's board of directors approved an additional \$1,500 million in authorization to purchase common stock, bringing the Company's remaining authorization under its share repurchase program including this increase to \$2,500 million. 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;
- 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.

- |       |                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|-------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 4.1   | Sixth Supplemental Trust Indenture, dated as of May 23, 2014, among Macy's Retail Holdings, Inc., as issuer, Macy's, Inc., as guarantor, and The Bank of New York Mellon Trust Company, N.A., as trustee (incorporated herein by reference to Exhibit 4.2 to Macy's, Inc. Current Report on Form 8-K (File No. 001-13536) filed on May 23, 2014)                                                                                              |
| 10.1  | Macy's Amended and Restated 2009 Omnibus Incentive Compensation Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated May 19, 2014)*                                                                                                                                                                                                                                                              |
| 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 May 3, 2014, filed on June 9, 2014, 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. |

---

\* Constitutes a compensatory plan or arrangement.

\*\* As provided in Rule 406T of Regulation S-T, this information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.

**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: June 9, 2014