Macy's, Inc.
Form 10-Q
December 08, 2014

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

FORM 10-Q

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

For the quarterly period ended November 1, 2014

OR

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

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

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 November 28, 2014
Common Stock, $0.01 par value per share	345,286,715 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		39 Weeks Ended	
	November 1, 2014	November 2, 2013	November 1, 2014	November 2, 2013
Net sales	$6,195	$ 6,276	$18,741	$ 18,729
Cost of sales	(3,766)	(3,817)	(11,274)	(11,261)
Gross margin	2,429	2,459	7,467	7,468
Selling, general and administrative expenses	(2,007)	(2,099)	(6,031)	(6,139)
Operating income	422	360	1,436	1,329
Interest expense	(97)	(97)	(298)	(291)
Interest income	1	1	2	2
Income before income taxes	326	264	1,140	1,040
Federal, state and local income tax expense	(109)	(87)	(407)	(365)
Net income	$217	$ 177	$733	$ 675
Basic earnings per share	$.62	$ .47	$2.04	$ 1.77
Diluted earnings per share	$.61	$ .47	$2.01	$ 1.74

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		39 Weeks Ended	
	November 1, 2014	November 2, 2013	November 1, 2014	November 2, 2013
Net income	$217	$ 177	$733	$ 675
Other comprehensive income:				
Amortization of net actuarial loss on post employment and postretirement benefit plans included in net income, before tax	5	38	18	117
Tax effect related to items of other comprehensive income	(2)	(14)	(7)	(45)
Total other comprehensive income, net of tax effect	3	24	11	72
Comprehensive income	$220	$ 201	$744	$ 747

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

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

(millions)

	November 1, 2014	February 1, 2014	November 2, 2013
ASSETS			
Current Assets:			
Cash and cash equivalents	$ 1,048	$2,273	$ 1,171
Receivables	292	438	276
Merchandise inventories	7,789	5,557	7,716
Prepaid expenses and other current assets	424	420	397
Total Current Assets	9,553	8,688	9,560
Property and Equipment - net of accumulated depreciation and amortization of $6,633, $6,066 and $6,555	7,787	7,930	7,950
Goodwill	3,743	3,743	3,743
Other Intangible Assets – net	504	527	535
Other Assets	838	746	658
Total Assets	$ 22,425	$21,634	$ 22,446
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities:			
Short-term debt	$ 76	$463	$ 465
Merchandise accounts payable	3,814	1,691	3,897
Accounts payable and accrued liabilities	2,563	2,810	2,323
Income taxes	114	362	78
Deferred income taxes	396	400	423
Total Current Liabilities	6,963	5,726	7,186
Long-Term Debt	7,143	6,728	6,732
Deferred Income Taxes	1,314	1,273	1,225
Other Liabilities	1,654	1,658	1,861
Shareholders' Equity	5,351	6,249	5,442
Total Liabilities and Shareholders' Equity	$ 22,425	$21,634	$ 22,446

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

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

(millions)

	39 Weeks Ended	
	November 1, 2014	November 2, 2013
Cash flows from operating activities:		
Net income	$733	$675
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	770	761
Stock-based compensation expense	55	48
Amortization of financing costs and premium on acquired debt	(4)	(7)
Changes in assets and liabilities:		
Decrease in receivables	154	102
Increase in merchandise inventories	(2,232)	(2,408)
Increase in prepaid expenses and other current assets	(4)	(25)
(Increase) decrease in other assets not separately identified	(46)	1
Increase in merchandise accounts payable	1,935	2,155
Decrease in accounts payable and accrued liabilities not separately identified	(362)	(320)
Decrease in current income taxes	(248)	(277)
Increase (decrease) in deferred income taxes	29	(43)
Increase (decrease) in other liabilities not separately identified	(3)	157
Net cash provided by operating activities	777	819
Cash flows from investing activities:		
Purchase of property and equipment	(483)	(381)
Capitalized software	(190)	(180)
Disposition of property and equipment	79	30
Other, net	(2)	(10)
Net cash used by investing activities	(596)	(541)
Cash flows from financing activities:		
Debt issued	500	400
Financing costs	(5)	(10)
Debt repaid	(462)	(121)
Dividends paid	(314)	(267)
Increase in outstanding checks	123	73
Acquisition of treasury stock	(1,456)	(1,228)
Issuance of common stock	208	210
Net cash used by financing activities	(1,406)	(943)
Net decrease in cash and cash equivalents	(1,225)	(665)
Cash and cash equivalents beginning of period	2,273	1,836
Cash and cash equivalents end of period	$1,048	$1,171
Supplemental cash flow information:		
Interest paid	$284	$268
Interest received	2	1
Income taxes paid (net of refunds received)	565	582

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, websites and mobile applications 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 and 39 weeks ended November 1, 2014 and November 2, 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 and 39 weeks ended November 1, 2014 and November 2, 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 and 39 weeks ended November 1, 2014 and November 2, 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 tables set forth the computation of basic and diluted earnings per share:

	13 Weeks Ended November 1, 2014		November 2, 2013	
	Net Income	Shares	Net Income	Shares
	(millions, except per share data)			
Net income and average number of shares outstanding	$217	350.8	$177	373.9
Shares to be issued under deferred compensation and other plans		0.8		0.9
	$217	351.6	$177	374.8
Basic earnings per share	$.62		$.47	
Effect of dilutive securities:				
Stock options, restricted stock and restricted stock units		6.1		5.4
	$217	357.7	$177	380.2
Diluted earnings per share	$.61		$.47	

	39 Weeks Ended November 1, 2014		November 2, 2013	
	Net Income	Shares	Net Income	Shares
	(millions, except per share data)			
Net income and average number of shares outstanding	$733	358.0	$675	380.8
Shares to be issued under deferred compensation and other plans		0.9		1.0
	$733	358.9	$675	381.8
Basic earnings per share	$2.04		$1.77	
Effect of dilutive securities:				
Stock options, restricted stock and restricted stock units		6.3		6.2
	$733	365.2	$675	388.0
Diluted earnings per share	$2.01		$1.74	

In addition to the stock options, restricted stock and restricted stock units reflected in the foregoing tables, stock options to purchase 3.2 million shares of common stock and restricted stock units relating to 0.9 million shares of common stock were outstanding at November 1, 2014, but were not included in the computation of diluted earnings per share for the 13 or 39 weeks ended November 1, 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 tables, stock options to purchase 6.6 million shares of common stock and restricted stock units relating to 1.8 million shares of common stock were outstanding at November 2, 2013, but were not included in the computation of diluted earnings per share for the 13 or 39 weeks ended November 2, 2013 because their inclusion would have been antidilutive or they were subject to performance conditions that had not been met.

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

3. Financing Activities

The following table shows the detail of debt repayments:

	39 Weeks Ended	
	November 1, 2014	November 2, 2013
	(millions)	
5.75% Senior notes due 2014	$453	$—
7.625% Senior debentures due 2013	—	109
9.5% amortizing debentures due 2021	4	4
9.75% amortizing debentures due 2021	2	2
Capital leases and other obligations	3	6
	$462	$121

During the 39 weeks ended November 1, 2014, the Company repurchased approximately 25.3 million shares of its common stock pursuant to existing stock purchase authorizations for a total of approximately $1,483 million. As of November 1, 2014, the Company had $1,449 million of authorization remaining under its share repurchase program. The Company may continue or, from time to time, suspend repurchases of shares under its share repurchase program, depending on prevailing market conditions, alternate uses of capital and other factors.

On November 18, 2014, the Company issued $550 million aggregate principal amount of 4.5% senior notes due 2034. The Company intends to use the proceeds of this debt for general corporate purposes, which may include working capital, capital expenditures, retirement of indebtedness and the repurchase of outstanding common stock.

On November 14, 2014, the Company provided a notice of redemption related to all of the $407 million of 7.875% senior notes due 2015, as allowed under the terms of the indenture. The price for the redemption will be calculated pursuant to the indenture and will result in the recognition of additional interest expense of approximately $16 to $18 million during the 13 weeks ended January 31, 2015. This additional interest expense will be presented as a premium on early retirement of debt on the Consolidated Statements of Income. The redemption is expected to be completed on December 15, 2014, and will be financed with a portion of the proceeds from the debt issuance described above. As a result, this short-term debt was reclassified to long-term debt as of November 1, 2014.

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

During the 39 weeks ended November 2, 2013, the Company issued $400 million aggregate principal amount of 4.375% senior notes due 2023 and also repaid $109 million of indebtedness at maturity.

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.

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

Expense related to matching contributions for the 401(k) defined contribution plan amounted to $21 million and $71 million for the 13 and 39 weeks ended November 1, 2014, respectively, and $4 million and $14 million for the 13 and 39 weeks ended November 2, 2013, respectively. The actuarially determined components of the net periodic benefit cost (income) are as follows:

	13 Weeks Ended		39 Weeks Ended	
	November 1, 2014	November 2, 2013	November 1, 2014	November 2, 2013
	(millions)			
Pension Plan				
Service cost	$2	$ 28	$5	$ 84
Interest cost	38	36	113	107
Expected return on assets	(62)	(60)	(185)	(181)
Recognition of net actuarial loss	6	34	19	105
Amortization of prior service credit	—	—	—	—
	$(16)	$ 38	$(48)	$ 115
Supplementary Retirement Plan				
Service cost	$—	$ 2	$—	$ 5
Interest cost	8	8	25	24
Recognition of net actuarial loss	1	4	3	14
Amortization of prior service cost	—	—	—	—
	$9	$ 14	$28	$ 43
Postretirement Obligations				
Service cost	$—	$ —	$—	$ —
Interest cost	3	2	7	7
Recognition of net actuarial gain	(2)	—	(4)	(2)
Amortization of prior service cost	—	—	—	—
	$1	$ 2	$3	$ 5

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:

	November 1, 2014				November 2, 2013			
		Fair Value Measurements				Fair Value Measurements		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(millions)							
Marketable equity and debt securities	$94	$—	$94	$ —	$78	$—	$78	$ —

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.

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

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

	November 1, 2014			November 2, 2013		
	Notional Amount	Carrying Amount	Fair Value	Notional Amount	Carrying Amount	Fair Value
	(millions)					
Long-term debt	$6,947	$7,114	$7,747	$6,522	$6,701	$7,002

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."

Condensed Consolidating Balance Sheets as of November 1, 2014, November 2, 2013 and February 1, 2014, the related Condensed Consolidating Statements of Comprehensive Income for the 13 and 39 weeks ended November 1, 2014 and November 2, 2013, and the related Condensed Consolidating Statements of Cash Flows for the 39 weeks ended November 1, 2014 and November 2, 2013 are presented on the following pages.

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

Condensed Consolidating Balance Sheet
As of November 1, 2014
(millions)

	Parent	Subsidiary Issuer	Other Subsidiaries	Consolidating Adjustments	Consolidated
ASSETS:					
Current Assets:					
Cash and cash equivalents	$650	$105	$293	$ —	$1,048
Receivables	—	58	234	—	292
Merchandise inventories	—	3,997	3,792	—	7,789
Prepaid expenses and other current assets	—	95	329	—	424
Income taxes	—	—	—	—	—
Total Current Assets	650	4,255	4,648	—	9,553
Property and Equipment – net	—	4,447	3,340	—	7,787
Goodwill	—	3,315	428	—	3,743
Other Intangible Assets – net	—	80	424	—	504
Other Assets	3	135	700	—	838
Deferred Income Taxes	15	—	—	(15)	—
Intercompany Receivable	245	—	5,106	(5,351)	—
Investment in Subsidiaries	4,596	3,362	—	(7,958)	—
Total Assets	$5,509	$15,594	$14,646	$ (13,324)	$22,425
LIABILITIES AND SHAREHOLDERS' EQUITY:					
Current Liabilities:					
Short-term debt	$—	$75	$1	$ —	$76
Merchandise accounts payable	—	1,763	2,051	—	3,814
Accounts payable and accrued liabilities	115	1,067	1,381	—	2,563
Income taxes	3	38	73	—	114
Deferred income taxes	—	310	86	—	396
Total Current Liabilities	118	3,253	3,592	—	6,963
Long-Term Debt	—	7,123	20	—	7,143
Intercompany Payable	—	3,641	1,710	(5,351)	—
Deferred Income Taxes	—	524	805	(15)	1,314
Other Liabilities	40	520	1,094	—	1,654
Shareholders' Equity	5,351	533	7,425	(7,958)	5,351
Total Liabilities and Shareholders' Equity	$5,509	$15,594	$14,646	$ (13,324)	$22,425

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

Condensed Consolidating Statement of Comprehensive Income
For the 13 Weeks Ended November 1, 2014
(millions)

	Parent	Subsidiary Issuer	Other Subsidiaries	Consolidating Adjustments	Consolidated
Net sales	$—	$2,920	$6,338	$ (3,063)	$6,195
Cost of sales	—	(1,916)	(4,940)	3,090	(3,766)
Gross margin	—	1,004	1,398	27	2,429
Selling, general and administrative expenses	—	(1,069)	(911)	(27)	(2,007)
Operating income (loss)	—	(65)	487	—	422
Interest (expense) income, net:					
External	—	(96)	—	—	(96)
Intercompany	—	(56)	56	—	—
Equity in earnings of subsidiaries	217	21	—	(238)	—
Income (loss) before income taxes	217	(196)	543	(238)	326
Federal, state and local income tax benefit (expense)	—	60	(169)	—	(109)
Net income (loss)	$217	$(136)	$374	$ (238)	$217
Comprehensive income (loss)	$220	$(133)	$377	$ (244)	$220

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

Condensed Consolidating Statement of Comprehensive Income
For the 39 Weeks Ended November 1, 2014
(millions)

	Parent	Subsidiary Issuer	Other Subsidiaries	Consolidating Adjustments	Consolidated
Net sales	$—	$8,799	$16,816	$ (6,874)	$18,741
Cost of sales	—	(5,580)	(12,568)	6,874	(11,274)
Gross margin	—	3,219	4,248	—	7,467
Selling, general and administrative expenses	(2)	(3,122)	(2,907)	—	(6,031)
Operating income (loss)	(2)	97	1,341	—	1,436
Interest (expense) income, net:					
External	—	(296)	—	—	(296)
Intercompany	—	(172)	172	—	—
Equity in earnings of subsidiaries	735	200	—	(935)	—
Income (loss) before income taxes	733	(171)	1,513	(935)	1,140
Federal, state and local income tax benefit (expense)	—	102	(509)	—	(407)
Net income (loss)	$733	$(69)	$1,004	$ (935)	$733
Comprehensive income (loss)	$744	$(58)	$1,011	$ (953)	$744

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

Condensed Consolidating Statement of Cash Flows
For the 39 Weeks Ended November 1, 2014
(millions)

	Parent	Subsidiary Issuer	Other Subsidiaries	Consolidating Adjustments	Consolidated
Cash flows from operating activities:					
Net income (loss)	$733	$(69)	$1,004	$(935)	$733
Equity in earnings of subsidiaries	(735)	(200)	—	935	—
Dividends received from subsidiaries	775	1	—	(776)	—
Depreciation and amortization	—	331	439	—	770
(Increase) decrease in working capital	99	(284)	(572)	—	(757)
Other, net	(14)	(29)	74	—	31
Net cash provided (used) by operating activities	858	(250)	945	(776)	777
Cash flows from investing activities:					
Purchase of property and equipment and capitalized software, net	—	(175)	(419)	—	(594)
Other, net	—	6	(8)	—	(2)
Net cash used by investing activities	—	(169)	(427)	—	(596)
Cash flows from financing activities:					
Debt issued, net of debt repaid	—	39	(1)	—	38
Dividends paid	(314)	—	(776)	776	(314)
Common stock acquired, net of issuance of common stock	(1,248)	—	—	—	(1,248)
Intercompany activity, net	(553)	416	137	—	—
Other, net	(48)	(15)	181	—	118
Net cash provided (used) by financing activities	(2,163)	440	(459)	776	(1,406)
Net increase (decrease) in cash and cash equivalents	(1,305)	21	59	—	(1,225)
Cash and cash equivalents at beginning of period	1,955	84	234	—	2,273
Cash and cash equivalents at end of period	$650	$105	$293	$—	$1,048

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

Condensed Consolidating Balance Sheet
As of November 2, 2013
(millions)

	Parent	Subsidiary Issuer	Other Subsidiaries	Consolidating Adjustments	Consolidated
ASSETS:					
Current Assets:					
Cash and cash equivalents	$807	$21	$343	$—	$1,171
Receivables	—	44	232	—	276
Merchandise inventories	—	3,946	3,770	—	7,716
Prepaid expenses and other current assets	—	99	298	—	397
Income taxes	38	—	—	(38)	—
Total Current Assets	845	4,110	4,643	(38)	9,560
Property and Equipment – net	—	4,531	3,419	—	7,950
Goodwill	—	3,315	428	—	3,743
Other Intangible Assets – net	—	103	432	—	535
Other Assets	4	73	581	—	658
Deferred Income Taxes	3	—	—	(3)	—
Intercompany Receivable	464	—	3,218	(3,682)	—
Investment in Subsidiaries	4,320	2,753	—	(7,073)	—
Total Assets	$5,636	$14,885	$12,721	$(10,796)	$22,446
LIABILITIES AND SHAREHOLDERS' EQUITY:					
Current Liabilities:					
Short-term debt	$—	$463	$2	$—	$465
Merchandise accounts payable	—	1,812	2,085	—	3,897
Accounts payable and accrued liabilities	107	965	1,251	—	2,323
Income taxes	—	6	110	(38)	78
Deferred income taxes	—	322	101	—	423
Total Current Liabilities	107	3,568	3,549	(38)	7,186
Long-Term Debt	—	6,711	21	—	6,732
Intercompany Payable	—	3,682	—	(3,682)	—
Deferred Income Taxes	—	450	778	(3)	1,225
Other Liabilities	87	619	1,155	—	1,861
Shareholders' Equity (Deficit)	5,442	(145)	7,218	(7,073)	5,442
Total Liabilities and Shareholders' Equity	$5,636	$14,885	$12,721	$(10,796)	$22,446

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

Condensed Consolidating Statement of Comprehensive Income
For the 13 Weeks Ended November 2, 2013
(millions)

	Parent	Subsidiary Issuer	Other Subsidiaries	Consolidating Adjustments	Consolidated
Net sales	$—	$2,979	$6,337	$ (3,040)	$6,276
Cost of sales	—	(1,930)	(4,913)	3,026	(3,817)
Gross margin	—	1,049	1,424	(14)	2,459
Selling, general and administrative expenses	(2)	(1,113)	(998)	14	(2,099)
Operating income (loss)	(2)	(64)	426	—	360
Interest (expense) income, net:					
External	1	(96)	(1)	—	(96)
Intercompany	(1)	(39)	40	—	—
Equity in earnings of subsidiaries	178	(15)	—	(163)	—
Income (loss) before income taxes	176	(214)	465	(163)	264
Federal, state and local income tax benefit (expense)	1	56	(144)	—	(87)
Net income (loss)	$177	$(158)	$321	$ (163)	$177
Comprehensive income (loss)	$201	$(134)	$331	$ (197)	$201

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

Condensed Consolidating Statement of Comprehensive Income
For the 39 Weeks Ended November 2, 2013
(millions)

	Parent	Subsidiary Issuer	Other Subsidiaries	Consolidating Adjustments	Consolidated
Net sales	$—	$8,911	$16,716	$ (6,898)	$18,729
Cost of sales	—	(5,590)	(12,529)	6,858	(11,261)
Gross margin	—	3,321	4,187	(40)	7,468
Selling, general and administrative expenses	(7)	(3,217)	(2,955)	40	(6,139)
Operating income (loss)	(7)	104	1,232	—	1,329
Interest (expense) income, net:					
External	1	(289)	(1)	—	(289)
Intercompany	(1)	(118)	119	—	—
Equity in earnings of subsidiaries	679	129	—	(808)	—
Income (loss) before income taxes	672	(174)	1,350	(808)	1,040
Federal, state and local income tax benefit (expense)	3	93	(461)	—	(365)
Net income (loss)	$675	$(81)	$889	$ (808)	$675
Comprehensive income (loss)	$747	$(9)	$919	$ (910)	$747

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

Condensed Consolidating Statement of Cash Flows
For the 39 Weeks Ended November 2, 2013
(millions)

	Parent	Subsidiary Issuer	Other Subsidiaries	Consolidating Adjustments	Consolidated
Cash flows from operating activities:					
Net income (loss)	$675	$(81)	$889	$(808)	$675
Equity in earnings of subsidiaries	(679)	(129)	—	808	—
Dividends received from subsidiaries	458	—	—	(458)	—
Depreciation and amortization	—	349	412	—	761
Increase in working capital	(34)	(185)	(554)	—	(773)
Other, net	16	107	33	—	156
Net cash provided by operating activities	436	61	780	(458)	819
Cash flows from investing activities:					
Purchase of property and equipment and capitalized software, net	—	(206)	(325)	—	(531)
Other, net	—	—	(10)	—	(10)
Net cash used by investing activities	—	(206)	(335)	—	(541)
Cash flows from financing activities:					
Debt issued, net of debt repaid	—	281	(2)	—	279
Dividends paid	(267)	—	(458)	458	(267)
Common stock acquired, net of issuance of common stock	(1,018)	—	—	—	(1,018)
Intercompany activity, net	224	(159)	(65)	—	—
Other, net	(106)	3	166	—	63
Net cash provided (used) by financing activities	(1,167)	125	(359)	458	(943)
Net increase (decrease) in cash and cash equivalents	(731)	(20)	86	—	(665)
Cash and cash equivalents at beginning of period	1,538	41	257	—	1,836
Cash and cash equivalents at end of period	$807	$21	$343	$—	$1,171

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

Condensed Consolidating Balance Sheet
As of February 1, 2014
(millions)

	Parent	Subsidiary Issuer	Other Subsidiaries	Consolidating Adjustments	Consolidated
ASSETS:					
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
LIABILITIES AND SHAREHOLDERS' EQUITY:					
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 "third quarter of 2014" and "third quarter of 2013" are to the Company's 13-week fiscal periods ended November 1, 2014 and November 2, 2013, respectively, and all references to "2014" and "2013" are to the Company's 39-week fiscal periods ended November 1, 2014 and November 2, 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, websites and mobile applications 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. Since May 2014, nearly all Macy's and Bloomingdale's stores have been fulfilling orders from other stores and/or online for shipment, compared to 500 Macy's stores as of November 2, 2013. Since August 2014, nearly all Macy's and Bloomingdale's stores have been fulfilling orders for store pick-up related to online purchases, and as of November 1, 2014, same-day delivery pilots are being tested in eight Macy's markets and four Bloomingdale's markets.

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

The Company opened three new Macy's stores and one Bloomingdale's replacement store in 2014. Six Macy's stores have been closed during 2014, three of which were consolidations where Macy's previously had multiple locations within a single mall. During 2013, the Company opened two new Macy's stores, one new Bloomingdale's Outlet store, one Macy's replacement 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.

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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.

All economic conditions ultimately affect the Company's overall operations. However, the effects of economic conditions can be experienced differently and at different times, in the various geographic regions in which the Company operates, in relation to the different types of merchandise that the Company offers for sale, or in relation to the Company's Macy's-branded and Bloomingdale's-branded 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 0.7% to 1.0% from 2013 levels and that its diluted earnings per share in fiscal 2014 will be in the range of $4.25 to $4.35.

Results of Operations

Comparison of the Third Quarter of 2014 and the Third Quarter of 2013

	Third Quarter of 2014		Third Quarter of 2013	
	Amount	% to Sales	Amount	% to Sales
	(dollars in millions, except per share figures)			
Net sales	$6,195		$6,276	
Increase (decrease) in sales	(1.3)%		3.3 %	
Increase (decrease) in comparable sales	(1.4)%		3.5 %	
Cost of sales	(3,766)	(60.8)%	(3,817)	(60.8)%
Gross margin	2,429	39.2 %	2,459	39.2 %
Selling, general and administrative expenses	(2,007)	(32.4)%	(2,099)	(33.5)%
Operating income	422	6.8 %	360	5.7 %
Interest expense - net	(96)		(96)	
Income before income taxes	326		264	
Federal, state and local income tax expense	(109)		(87)	
Net income	$217	3.5 %	$177	2.8 %
Diluted earnings per share	$.61		$.47	

Diluted Earnings Per Share

Diluted earnings per share for the third quarter of 2014 increased $.14 or 29.8% compared to the third quarter of 2013, reflecting higher net income and lower average diluted shares.

Net Income

Net income for the third quarter of 2014 increased $40 million or 22.6% compared to the third quarter of 2013, reflecting lower selling, general and administrative (“SG&A”) expenses, partially offset by lower net sales and gross margin, in dollars, and higher income taxes.

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Net Sales

Net sales for the third quarter of 2014 decreased $81 million or 1.3% compared to the third quarter of 2013. On a comparable basis, net sales for the third quarter of 2014 were down 1.4% compared to net sales for the third quarter of 2013 (which were up 3.5% compared to net sales for the third quarter of 2012). Comparable sales together with comparable sales of departments licensed to third parties were down 0.7% for the third quarter of 2014 compared to the third quarter of 2013 (which were up 4.6% compared to the third quarter of 2012). (See page 25 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 third quarter of 2014 were weaker across the country, although less so in the southern regions and also in certain individual store locations and regions outside of the south, most notably Herald Square in New York City and Colorado. By family of business, sales in the third quarter of 2014 were stronger in handbags, fragrances, active and millennial apparel, and men's. Sales in the third quarter of 2014 were weaker in the soft home business (particularly housewares and textiles), women's shoes, cosmetics, non-millennial feminine apparel and kids.

Cost of Sales

Cost of sales for the third quarter of 2014 decreased $51 million and the cost of sales rate as a percent to net sales for both the third quarter of 2014 and the third quarter of 2013 was 60.8%. The application of the last-in, first-out (LIFO) retail inventory method did not result in the recognition of any LIFO charges or credits affecting cost of sales in either period.

Selling, General and Administrative Expenses

SG&A expenses for the third quarter of 2014 decreased $92 million or 4.4% from the third quarter of 2013. The SG&A rate as a percent to net sales of 32.4% was 110 basis points lower in the third quarter of 2014, as compared to the third quarter of 2013. SG&A expenses in the third quarter of 2014 benefited from a delay in certain marketing expenses to drive sales in the fourth quarter, gains on the sale of or lease settlements related to certain office buildings, stores and surplus properties, lower retirement expenses (including Pension Plan, SERP and 401(k) expenses), the impact of the cost reduction initiatives implemented at fiscal 2013 year-end and higher income from credit operations, partially offset by the continued investments in the Company's omnichannel operations. The third quarter of 2014 included gains on the sale of or lease settlements related to office buildings, stores and surplus properties of $48 million. Retirement expenses were $14 million in the third quarter of 2014, compared to $56 million in the third quarter of 2013, reflecting the recent changes to the Company's retirement plans. Income from credit operations was $182 million in the third quarter of 2014, compared to $170 million in the third quarter of 2013, reflecting continued profitability of the portfolio.

Net Interest Expense

Net interest expense was $96 million for both the third quarter of 2014 and the third quarter of 2013.

Effective Tax Rate

The Company's effective tax rate of 33.5% for the third quarter of 2014 and 33.0% for the third 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.

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Comparison of 39 Weeks Ended November 1, 2014 and November 2, 2013

	2014		2013	
	Amount	% to Sales	Amount	% to Sales
	(dollars in millions, except per share figures)			
Net sales	$18,741		$18,729	
Increase in sales	0.1 %		2.1 %	
Increase in comparable sales	0.1 %		2.2 %	
Cost of sales	(11,274)	(60.2)%	(11,261)	(60.1)%
Gross margin	7,467	39.8 %	7,468	39.9 %
Selling, general and administrative expenses	(6,031)	(32.1)%	(6,139)	(32.8)%
Operating income	1,436	7.7 %	1,329	7.1 %
Interest expense - net	(296)		(289)	
Income before income taxes	1,140		1,040	
Federal, state and local income tax expense	(407)		(365)	
Net income	$733	3.9 %	$675	3.6 %
Diluted earnings per share	$2.01		$1.74	

Diluted Earnings Per Share

Diluted earnings per share for 2014 increased $.27 or 15.5% compared to the 2013, reflecting higher net income and lower average diluted shares.

Net Income

Net income for 2014 increased $58 million or 8.6% compared to 2013, reflecting higher net sales and lower SG&A expenses in dollars and rate, partially offset by the impact of higher cost of sales in dollars and rate, higher interest expense and higher income taxes.

Net Sales

Net sales for 2014 increased $12 million or 0.1% compared to 2013. On a comparable basis, net sales for 2014 were up 0.1% compared to 2013. Comparable sales together with comparable sales of departments licensed to third parties were up 0.8% in 2014. (See page 25 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.) Geographically, sales in 2014 were stronger in the southern regions. By family of business, sales in 2014 were stronger in handbags, fragrances, and active and millennial apparel. Sales in 2014 were weaker in women's shoes and the soft home business (particularly housewares and textiles).

Cost of Sales

Cost of sales for 2014 increased $13 million from 2013. The cost of sales rate as a percent to net sales was 10 basis points higher, compared to 2013, reflecting the growth in the omnichannel business and the resulting impact of free shipping. 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.

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Selling, General and Administrative Expenses

SG&A expenses for 2014 decreased $108 million or 1.8% from 2013. The SG&A rate as a percent to net sales of 32.1% was 70 basis points lower in 2014, as compared to 2013. SG&A expenses in 2014 benefited from gains on the sale of or lease settlements related to certain office buildings, stores and surplus properties, lower retirement expenses (including Pension Plan, SERP and 401(k) expenses), the impact of the cost reduction initiatives implemented at fiscal 2013 year-end and higher income from credit operations, partially offset by the continued investments in the Company's omnichannel operations. Retirement expenses were $51 million in 2014, compared to $172 million in 2013, reflecting the recent changes to the Company's retirement plans. Income from credit operations was $536 million in 2014, compared to $513 million in 2013, reflecting continued profitability of the portfolio.

Net Interest Expense

Net interest expense for 2014 increased $7 million from 2013. The increase in net interest expense for 2014 was due to higher levels of average outstanding borrowings as compared to 2013.

Effective Tax Rate

The Company's effective tax rate of 35.7% for 2014 and 35.1% for 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). Management also believes that the combined measure is useful in assessing changes in total customer demand at Macy's and Bloomingdale's stores.

See the tables 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 of departments licensed to third parties are limited to commissions received on such sales. The methods used by the Company to calculate its non-GAAP financial measures may differ significantly from methods used by other companies to compute similar measures. As a result, any non-GAAP financial measures presented herein may not be comparable to similar measures provided by other companies.

	Third Quarter of 2014	Third Quarter of 2013
Increase (decrease) in comparable sales (note 1)	(1.4)%	3.5 %
Impact of growth in comparable sales of departments licensed to third parties (note 2)	0.7 %	1.1 %
Increase (decrease) in comparable sales including impact of growth in comparable sales of departments licensed to third parties	(0.7)%	4.6 %

	2014	2013
Increase in comparable sales (note 1)	0.1 %	2.2 %
Impact of growth in comparable sales of departments licensed to third parties (note 2)	0.7 %	0.9 %
Increase in comparable sales including impact of growth in comparable sales of departments licensed to third parties	0.8 %	3.1 %

Notes:

(1) 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 remodeling, expansion or relocation remain in the comparable sales calculation unless the store is closed for a significant period of time. Definitions and calculations of comparable sales differ among companies in the retail industry.

(2) Represents the impact 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 based on a percentage of their net sales. In its financial statements prepared in conformity with GAAP, the Company includes these commissions (rather than the sales of the departments licensed to third parties) in its net

sales. The Company does not, however, include any amounts in respect of licensed department sales (or any commissions earned on such sales) in its comparable sales in accordance with GAAP. The Company believes that the amounts of commissions earned on sales of departments licensed to third parties are not material to its results of operations for the periods presented.

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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 2014 was $777 million, compared to $819 million provided in 2013, due to lower merchandise payables, relating to the timing of inventory receipts, and a greater decrease in accounts payable and accrued liabilities, including the payout of costs associated with the cost reduction initiatives implemented at fiscal 2013 year-end, partially offset by a smaller increase in merchandise inventories in 2014 compared to 2013.

Investing Activities

Net cash used by investing activities was $596 million for 2014, compared to net cash used by investing activities of $541 million for 2013. Investing activities for 2014 include purchases of property and equipment totaling $483 million and capitalized software of $190 million, compared to purchases of property and equipment totaling $381 million and capitalized software of $180 million for 2013.

Financing Activities

Net cash used by the Company for financing activities was $1,406 million for 2014, including $1,456 million for the acquisition of the Company's common stock, primarily under its share repurchase program, the payment of $314 million of cash dividends, and the repayment of $462 million of debt, partially offset by the issuance of $500 million aggregate principal amount of 3.625% senior unsecured notes due 2024, $208 million from the issuance of common stock, primarily related to the exercise of stock options, and an increase in outstanding checks of $123 million.

During 2014, the Company repurchased approximately 25.3 million shares of its common stock pursuant to existing stock purchase authorizations for a total of approximately $1,483 million. As of November 1, 2014, the Company had $1,449 million of authorization remaining under its share repurchase program. The Company may continue or, from time to time, suspend repurchases of shares under its share repurchase program, depending on prevailing market conditions, alternate uses of capital and other factors.

Net cash used by the Company for financing activities was $943 million for 2013, including $1,228 million for the acquisition of the Company's common stock, primarily under its share repurchase program, the payment of $267 million of cash dividends and the repayment of $121 million of debt, partially offset by the issuance of $400 million of debt, $210 million from the issuance of common stock, primarily related to the exercise of stock options, and an increase in outstanding checks of $73 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 third quarter of 2014 was 9.57 and its leverage ratio at November 1, 2014 was 1.81, in each case as calculated in accordance with the credit agreement.

On October 24, 2014, the Company's board of directors declared a quarterly dividend of 31.25 cents per share on its common stock, payable January 2, 2015 to Macy's shareholders of record at the close of business on December 15, 2014.

The Company entered into an amended and restated credit card program agreement with Citibank on November 10, 2014 with substantially similar financial terms as the prior credit card program agreement. The new agreement is set to expire March 31, 2025 (subject to renewal for an additional term of three years) and replaces the prior credit card program agreement which was set to expire July 17, 2016.

On November 18, 2014, the Company issued $550 million aggregate principal amount of 4.5% senior notes due 2034. The Company intends to use the proceeds of this debt for general corporate purposes, which may include working capital, capital expenditures, retirement of indebtedness and the repurchase of outstanding common stock.

On November 14, 2014, the Company provided a notice of redemption related to all of the $407 million of 7.875% senior notes due 2015, as allowed under the terms of the indenture. The price for the redemption will be calculated pursuant to the indenture and will result in the recognition of additional interest expense of approximately $16 to $18 million during the 13 weeks ended January 31, 2015. This additional interest expense will be presented as a premium

on early retirement of debt on the Consolidated Statements of Income. The redemption is expected to be completed on December 15, 2014, and will be financed with a portion of the proceeds from the debt issuance described above. As a result, this short-term debt was reclassified to long-term debt as of November 1, 2014.

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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.

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Item 4. Controls and Procedures.

The Company's Chief Executive Officer and Chief Financial Officer have carried out, as of November 1, 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.

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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 third quarter of 2014.

	Total Number of Shares Purchased (thousands)	Average Price per Share ($)	Number of Shares Purchased under Program (1) (thousands)	Open Authorization Remaining (1)($) (millions)
August 3, 2014 – August 30, 2014	1,659	60.72	1,659	1,882
August 31, 2014 – October 4, 2014	3,987	59.98	3,987	1,643
October 5, 2014 – November 1, 2014	3,378	57.37	3,378	1,449
	9,024	59.14	9,024	

(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 $15 billion of Common Stock as of November 1, 2014. All authorizations are cumulative and do not have an expiration date. As of November 1, 2014, $1,449 million of authorization remained unused. The Company may continue, discontinue or resume purchases of Common Stock under these or possible future authorizations in the open market, in privately negotiated transactions or otherwise at any time and from time to time without prior notice.

Item 4. Mine Safety Disclosures.
Not Applicable.

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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.

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Item 6. Exhibits.

4.1	Seventh Supplemental Trust Indenture, dated as of November 18, 2014, among Macy's Retail Holdings, Inc., as issuer, Macy's, Inc. (the "Company"), 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 8-K (File No. 001-13536) filed on November 18, 2014)
10.1+	Amended and Restated Credit Card Program Agreement, dated November 10, 2014, among the Company, FDS Bank, Macy's Credit and Customer Services, Inc., Macy's West Stores, Inc., Bloomingdale's, Inc., Department Stores National Bank, and Citibank, N.A.
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 November 1, 2014, filed on December 8, 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.

\+ Portions of the exhibit have been omitted pursuant to a request for confidential treatment. The confidential portions have been provided to the SEC.

** 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: December 8, 2014