

Macy's, Inc.
Form 10-Q
December 08, 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 November 1, 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)

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

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

Class	Outstanding at 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.

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

1. Summary of Significant Accounting Policies

Nature of Operations

Macy's, Inc. and subsidiaries (the "Company") is an omnichannel retail organization operating stores, websites and mobile applications under 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 2, 2013	
	November 1, 2014		November 2, 2013	
	Net	Shares	Net	Shares
	Income		Income	
	(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 2, 2013	
	November 1, 2014		November 2, 2013	
	Net	Shares	Net	Shares
	Income		Income	
	(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.

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			
	Total	Fair Value Measurements Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total	Fair Value Measurements Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(millions)							
Marketable equity and debt 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 (millions)	Carrying Amount	Fair Value	Notional Amount	Carrying Amount	Fair Value
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)			