

Macy's, Inc.  
Form 10-Q  
August 26, 2016

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 July 30, 2016

OR

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

For the transition period from to

Commission file number: 1-13536

Incorporated in Delaware I.R.S. Employer Identification No.  
13-3324058

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

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

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

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

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

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

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

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

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

Class	Outstanding at July 30, 2016
Common Stock, \$0.01 par value per share	308,467,833 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		26 Weeks Ended	
	July 30,	August 1,	July 30,	August 1,
	2016	2015	2016	2015
Net sales	\$5,866	\$6,104	\$11,637	\$12,336
Cost of sales	(3,468 )	(3,610 )	(6,984 )	(7,410 )
Gross margin	2,398	2,494	4,653	4,926
Selling, general and administrative expenses	(2,026 )	(2,058 )	(3,992 )	(4,081 )
Impairments and other costs	(249 )	—	(249 )	—
Settlement charges	(6 )	—	(19 )	—
Operating income	117	436	393	845
Interest expense	(98 )	(94 )	(197 )	(189 )
Interest income	1	1	2	1
Income before income taxes	20	343	198	657
Federal, state and local income tax expense	(11 )	(126 )	(74 )	(247 )
Net income	9	217	124	410
Net loss attributable to noncontrolling interest	2	—	3	—
Net income attributable to Macy's, Inc. shareholders	\$11	\$217	\$127	\$410
Basic earnings per share attributable to Macy's, Inc. shareholders	\$.03	\$.65	\$.41	\$1.21
Diluted earnings per share attributable to Macy's, Inc. shareholders	\$.03	\$.64	\$.41	\$1.19

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

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

(millions)

	13 Weeks Ended		26 Weeks Ended	
	July 31, 2016	August 1, 2015	July 31, 2016	August 1, 2015
Net income	\$9	\$ 217	\$124	\$ 410
Other comprehensive income (loss):				
Actuarial loss on postretirement benefit plans, before tax	(41)	—	(77)	) —
Settlement charges, before tax	6	—	19	—
Amortization of net actuarial loss on post employment and postretirement benefit plans included in net income, before tax	8	11	17	24
Tax effect related to items of other comprehensive income (loss)	10	(4 )	16	(9 )
Total other comprehensive income (loss), net of tax effect	(17)	7	(25)	) 15
Comprehensive income (loss)	(8 )	224	99	425
Comprehensive loss attributable to noncontrolling interest	2	—	3	—
Comprehensive income (loss) attributable to Macy's, Inc. shareholders	\$(6)	\$ 224	\$102	\$ 425

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

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

(millions)

	July 30, 2016	January 30, 2016	August 1, 2015
<b>ASSETS</b>			
Current Assets:			
Cash and cash equivalents	\$1,000	\$ 1,109	\$ 843
Receivables	423	558	334
Merchandise inventories	5,322	5,506	5,496
Prepaid expenses and other current assets	471	479	437
Total Current Assets	7,216	7,652	7,110
Property and Equipment - net of accumulated depreciation and amortization of \$5,457, \$5,319 and \$5,974	7,187	7,616	7,704
Goodwill	3,897	3,897	3,897
Other Intangible Assets – net	502	514	523
Other Assets	904	897	726
Total Assets	\$19,706	\$ 20,576	\$ 19,960
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current Liabilities:			
Short-term debt	\$1,063	\$ 642	\$ 83
Merchandise accounts payable	1,877	1,526	1,942
Accounts payable and accrued liabilities	2,514	3,333	2,277
Income taxes	23	227	64
Total Current Liabilities	5,477	5,728	4,366
Long-Term Debt	6,567	6,995	7,151
Deferred Income Taxes	1,448	1,477	1,449
Other Liabilities	2,164	2,123	2,150
Shareholders' Equity:			
Macy's, Inc.	4,046	4,250	4,844
Noncontrolling interest	4	3	—
Total Shareholders' Equity	4,050	4,253	4,844
Total Liabilities and Shareholders' Equity	\$19,706	\$ 20,576	\$ 19,960

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

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

(millions)

	26 Weeks Ended	
	July 30,	August 1,
	2016	2015
Cash flows from operating activities:		
Net income	\$ 124	\$ 410
Adjustments to reconcile net income to net cash provided by operating activities:		
Impairments and other costs	249	—
Settlement charges	19	—
Depreciation and amortization	520	520
Stock-based compensation expense	37	47
Amortization of financing costs and premium on acquired debt	(1	) (2
Changes in assets and liabilities:		
Decrease in receivables	99	92
(Increase) decrease in merchandise inventories	184	(50
Increase in prepaid expenses and other current assets	(40	) (29
Increase in other assets not separately identified	—	—
Increase in merchandise accounts payable	307	314
Decrease in accounts payable, accrued liabilities and other items not separately identified	(686	) (626
Decrease in current income taxes	(204	) (232
Decrease in deferred income taxes	(26	) (20
Decrease in other liabilities not separately identified	(22	) (26
Net cash provided by operating activities	560	398
Cash flows from investing activities:		
Purchase of property and equipment	(293	) (367
Capitalized software	(151	) (144
Acquisition of Bluemercury, Inc., net of cash acquired	—	(212
Disposition of property and equipment	67	4
Other, net	39	104
Net cash used by investing activities	(338	) (615
Cash flows from financing activities:		
Debt repaid	(3	) (72
Financing costs	(3	) —
Dividends paid	(228	) (227
Increase (decrease) in outstanding checks	2	(136
Acquisition of treasury stock	(130	) (909
Issuance of common stock	27	158
Proceeds from noncontrolling interest	4	—
Net cash used by financing activities	(331	) (1,186
Net decrease in cash and cash equivalents	(109	) (1,403
Cash and cash equivalents beginning of period	1,109	2,246
Cash and cash equivalents end of period	\$ 1,000	\$ 843
Supplemental cash flow information:		

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

Interest paid	\$200	\$ 194
Interest received	2	1
Income taxes paid (net of refunds received)	292	450

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

5

---

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

1. Summary of Significant Accounting Policies

Nature of Operations

Macy's, Inc. and subsidiaries (the "Company") is an omnichannel retail organization operating stores, websites and mobile applications under three brands (Macy's, Bloomingdale's and Bluemercury) that sell a wide range of merchandise, including apparel and accessories (men's, women's and children's), cosmetics, home furnishings and other consumer goods. The Company's operations include approximately 880 Macy's, Macy's Backstage, Bloomingdale's, Bloomingdales Outlet and Bluemercury stores in 45 states, the District of Columbia, Guam and Puerto Rico, as well as macys.com, bloomingdales.com and bluemercury.com. In addition, Bloomingdale's in Dubai, United Arab Emirates is operated under a license agreement with Al Tayer Insignia, a company of Al Tayer Group, LLC.

A description of the Company's significant accounting policies is included in the Company's Annual Report on Form 10-K for the fiscal year ended January 30, 2016 (the "2015 10-K"). The accompanying Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and notes thereto in the 2015 10-K.

Use of Estimates

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

The Consolidated Financial Statements for the 13 and 26 weeks ended July 30, 2016 and August 1, 2015, in the opinion of management, include all adjustments (consisting only of normal recurring adjustments) considered necessary to present fairly, in all material respects, the consolidated financial position and results of operations of the Company.

Seasonality

Because of the seasonal nature of the retail business, the results of operations for the 13 and 26 weeks ended July 30, 2016 and August 1, 2015 (which do not include the Christmas season) are not necessarily indicative of such results for the full fiscal year.

Reclassifications

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

Comprehensive Income

Total comprehensive income represents the change in equity during a period from sources other than transactions with shareholders and, as such, includes net income. For the Company, the only other components of total comprehensive income for the 13 and 26 weeks ended July 30, 2016 and August 1, 2015 relate to post employment and postretirement plan items. The settlement charges incurred are included as a separate component of operating expenses in the Consolidated Statements of Income. The amortization 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 Attributable to Macy's, Inc. Shareholders

The following tables set forth the computation of basic and diluted earnings per share attributable to Macy's, Inc. shareholders:

	13 Weeks Ended			
	July 30, 2016		August 1, 2015	
	Net Income	Shares	Net Income	Shares
	(millions, except per share data)			
Net income attributable to Macy's, Inc. shareholders and average number of shares outstanding	\$11	308.5	\$217	334.9
Shares to be issued under deferred compensation and other plans		0.9		0.8
	\$11	309.4	\$217	335.7
Basic earnings per share attributable to Macy's, Inc. shareholders	\$ .03		\$ .65	
Effect of dilutive securities:				
Stock options, restricted stock and restricted stock units		1.9		5.3
	\$11	311.3	\$217	341.0
Diluted earnings per share attributable to Macy's, Inc. shareholders	\$ .03		\$ .64	
	26 Weeks Ended			
	July 30, 2016		August 1, 2015	
	Net Income	Shares	Net Income	Shares
	(millions, except per share data)			
Net income attributable to Macy's, Inc. shareholders and average number of shares outstanding	\$127	309.1	\$410	337.3
Shares to be issued under deferred compensation and other plans		0.9		0.9
	\$127	310.0	\$410	338.2
Basic earnings per share attributable to Macy's, Inc. shareholders	\$ .41		\$ 1.21	
Effect of dilutive securities:				
Stock options, restricted stock and restricted stock units		2.4		5.5
	\$127	312.4	\$410	343.7
Diluted earnings per share attributable to Macy's, Inc. shareholders	\$ .41		\$ 1.19	

In addition to the stock options, restricted stock and restricted stock units reflected in the foregoing tables, stock options to purchase 15.7 million shares of common stock and restricted stock units relating to 1.1 million shares of common stock were outstanding at July 30, 2016, but were not included in the computation of diluted earnings per share for the 13 and 26 weeks ended July 30, 2016 because their inclusion would have been antidilutive or they were subject to performance conditions that had not been met.

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

MACY'S, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

### 3. Financing Activities

The following table shows the detail of debt repayments:

	26 Weeks Ended July 30, 2016	August 1, 2015
	(millions)	
7.5% Senior debentures due 2015	\$ —	\$ 69
9.5% amortizing debentures due 2021	2	2
9.75% amortizing debentures due 2021	1	1
	\$ 3	\$ 72

The Company entered into a credit agreement with certain financial institutions on May 6, 2016 providing for revolving credit borrowings and letters of credit in an aggregate amount not to exceed \$1,500 million (which may be increased to \$1,750 million at the option of the Company, subject to the willingness of existing or new lenders to provide commitments for such additional financing) outstanding at any particular time. This agreement is set to expire May 6, 2021 and replaces the prior agreement which was set to expire May 10, 2018.

On August 15, 2016, the Company redeemed at par the principal amount of \$108 million of 7.875% senior debentures due 2036, pursuant to the terms of the debentures. Interest expense in the third quarter of 2016 will be lower due to the recognition of unamortized debt premium associated with this debt.

During the 26 weeks ended July 30, 2016, the Company repurchased approximately 3.0 million shares of its common stock pursuant to existing stock purchase authorizations for a total of approximately \$129 million, and no shares of its common stock were repurchased during the 13 weeks ended July 30, 2016. As of July 30, 2016, the Company had \$1,903 million of authorization remaining under its share repurchase program. The Company may repurchase shares under its share repurchase program, depending on prevailing market conditions, alternate uses of capital and other factors.

### 4. Benefit Plans

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

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

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

## MACY'S, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

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

	13 Weeks Ended July 30, 2016		26 Weeks Ended August 1, 2016	
	2015	2015	2015	2015
	(millions)			
401(k) Qualified Defined Contribution Plan	\$25	\$ 24	\$49	\$ 47
Non-Qualified Defined Contribution Plan	\$ 1	\$ 1	\$ 1	\$ 1
Pension Plan				
Service cost	\$1	\$ 1	\$2	\$ 3
Interest cost	28	34	56	68
Expected return on assets	(58 )	(58 )	(114 )	(117 )
Recognition of net actuarial loss	7	9	15	19
Amortization of prior service credit	—	—	—	—
	\$(22)	\$(14 )	\$(41)	\$(27 )
Supplementary Retirement Plan				
Service cost	\$—	\$ —	\$—	\$ —
Interest cost	6	8	12	16
Recognition of net actuarial loss	2	2	4	5
Amortization of prior service cost	—	—	—	—
	\$8	\$ 10	\$16	\$ 21
Total Retirement Expense	\$12	\$ 21	\$25	\$ 42
Postretirement Obligations				
Service cost	\$—	\$ —	\$—	\$ —
Interest cost	1	2	3	4
Recognition of net actuarial gain	(1 )	—	(2 )	—
Amortization of prior service cost	—	—	—	—
	\$—	\$ 2	\$1	\$ 4

During the 13 and 26 weeks ended July 30, 2016, the Company also incurred \$6 million and \$19 million, respectively, of non-cash settlement charges relating to the Company's defined benefit plans. These charges resulted from an increase in lump sum distributions associated with store closings, a voluntary separation program and organizational restructuring, in addition to periodic distribution activity.

MACY'S, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

## 5. Fair Value Measurements

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

	July 30, 2016			August 1, 2015		
	Total	Significant Observable Inputs (Level 1 & 2)	Significant Unobservable Inputs (Level 3)	Total	Significant Observable Inputs (Level 1 & 2)	Significant Unobservable Inputs (Level 3)
Marketable equity and debt securities	\$ 141	\$ —	\$ 141	\$ —	\$ 101	\$ —

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 of these financial instruments approximates fair value because of the short maturity of these instruments. The fair values of long-term debt, excluding capitalized leases, are generally estimated based on quoted market prices for identical or similar instruments, and are classified as Level 2 measurements within the hierarchy as defined by applicable accounting standards.

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

	July 30, 2016		August 1, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt	\$6,461	\$6,540	\$7,012	\$7,123

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

During the second quarter of fiscal 2016, the Company completed its annual impairment test of goodwill and other intangible assets with indefinite lives. In connection with the preparation of these consolidated financial statements, management concluded that goodwill was not impaired as of May 30, 2016 and approximately \$7 million of asset impairment charges for the 13 and 26 weeks ended July 30, 2016 were recognized in relation to indefinite lived tradenames. The fair values of these tradenames were calculated based on the projected cash flows and an estimated risk-adjusted rate of return that would be used by market participants in valuing these assets or prices of similar assets and are classified as Level 3 measurements within the hierarchy as defined by applicable accounting standards.

The use of different assumptions, estimates or judgments in the testing process, including with respect to the analysis of macroeconomic conditions, industry, market and other economic considerations and actual and expected financial

performance, the estimated future cash flows and the discount rates used to discount such estimated cash flows to their net present values, could materially increase or decrease the estimated fair values and, accordingly, could impact the results of the annual impairment tests.

The carrying value of long-lived assets is periodically reviewed by the Company whenever events or changes in circumstances indicate that a potential impairment has occurred. For long-lived assets held for use, a potential impairment has occurred if projected future undiscounted cash flows are less than the carrying value of the assets. The estimate of cash flows includes management's assumptions of cash inflows and outflows directly resulting from the use of those assets in operations. When a potential impairment has occurred, an impairment write-down is recorded if the carrying value of the long-lived asset exceeds its fair value.

MACY'S, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

The Company has announced a plan to dispose of approximately 100 Macy's stores before the end of their previously estimated useful lives as the Company works to optimize its omnichannel approach to customers. As a result, an impairment review of the Company's long-lived assets was required and estimated cash flows have been revised accordingly. As part of this impairment review during the 13 weeks ended July 30, 2016, long-lived assets held and used with a carrying value of \$326 million were written down to their fair value of \$106 million, resulting in asset impairment charges of \$220 million. The fair values of these locations were calculated based on the projected cash flows and an estimated risk-adjusted rate of return that would be used by market participants in valuing these assets or prices of similar assets and are classified as Level 3 measurements within the hierarchy as defined by applicable accounting standards. Additionally, related liabilities will arise such as severance, contractual obligations and other accruals associated with store closings when the final determination is made regarding which Macy's stores will be closed. The Company estimates these liabilities based on the facts and circumstances in existence for each restructuring decision. The amounts the Company will ultimately realize or disburse could differ from the amounts assumed in arriving at the asset impairment charges recorded and any restructuring charge recorded in the future. The Company believes its estimated cash flows are sufficient to support the carrying value of its long-lived assets. If estimated cash flows significantly differ in the future, the Company may be required to record additional asset impairment write-downs.

#### 6. Condensed Consolidating Financial Information

Certain debt obligations of the Company, which constitute debt obligations of Macy's Retail Holdings, Inc. ("Subsidiary Issuer"), a 100%-owned subsidiary of Macy's, Inc. ("Parent"), are fully and unconditionally guaranteed by Parent. In the following condensed consolidating financial statements, "Other Subsidiaries" includes all other direct subsidiaries of Parent, including Bluemercury, Inc., FDS Bank, West 34th Street Insurance Company and its subsidiary West 34th Street Insurance Company New York, Macy's Merchandising Corporation, Macy's Merchandising Group, Inc. and its subsidiaries Macy's Merchandising Group (Hong Kong) Limited, Macy's Merchandising Group Procurement, LLC, Macy's Merchandising Group International, LLC, Macy's Merchandising Group International (Hong Kong) Limited, and its majority-owned subsidiary Macy's China 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 Statements of Comprehensive Income for the 13 and 26 weeks ended July 30, 2016 and August 1, 2015, Condensed Consolidating Balance Sheets as of July 30, 2016, August 1, 2015 and January 30, 2016, and the related Condensed Consolidating Statements of Cash Flows for the 26 weeks ended July 30, 2016 and August 1, 2015 are presented on the following pages.

MACY'S, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

## Condensed Consolidating Statement of Comprehensive Income

For the 13 Weeks Ended July 30, 2016

(millions)

	Parent	Subsidiary Issuer	Other Subsidiaries	Consolidating Adjustments	Consolidated
Net sales	\$ —	\$ 2,494	\$ 4,989	\$ (1,617 )	\$ 5,866
Cost of sales	—	(1,523 )	(3,562 )	1,617	(3,468 )
Gross margin	—	971	1,427	—	2,398
Selling, general and administrative expenses	—	(941 )	(1,085 )	—	(2,026 )
Impairments and other costs	—	(184 )	(65 )	—	(249 )
Settlement charges	—	(2 )	(4 )	—	(6 )
Operating income (loss)	—	(156 )	273	—	117
Interest (expense) income, net:					
External	—	(97 )	—	—	(97 )
Intercompany	—	(57 )	57	—	—
Equity in earnings of subsidiaries	11	22	—	(33 )	—
Income (loss) before income taxes	11	(288 )	330	(33 )	20
Federal, state and local income tax benefit (expense)	—	114	(125 )	—	(11 )
Net income (loss)	11	(174 )	205	(33 )	9
Net loss attributable to noncontrolling interest	—	—	2	—	2
Net income (loss) attributable to Macy's, Inc. shareholders	\$ 11	\$ (174 )	\$ 207	\$ (33 )	\$ 11
Comprehensive income (loss)	\$ (6 )	\$ (191 )	\$ 195	\$ (6 )	\$ (8 )
Comprehensive loss attributable to noncontrolling interest	—	—	2	—	2
Comprehensive income (loss) attributable to Macy's, Inc. shareholders	\$ (6 )	\$ (191 )	\$ 197	\$ (6 )	\$ (6 )

12



MACY'S, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

## Condensed Consolidating Statement of Comprehensive Income

For the 13 Weeks Ended August 1, 2015

(millions)

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

MACY'S, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

## Condensed Consolidating Statement of Comprehensive Income

For the 26 Weeks Ended July 30, 2016

(millions)

	Parent	Subsidiary Issuer	Other Subsidiaries	Consolidating Adjustments	Consolidated
Net sales	\$—	\$ 4,948	\$ 10,363	\$ (3,674 )	\$ 11,637
Cost of sales	—	(3,127 )	(7,531 )	3,674	(6,984 )
Gross margin	—	1,821	2,832	—	4,653
Selling, general and administrative expenses	(1 )	(1,823 )	(2,168 )	—	(3,992 )
Impairments and other costs	—	(184 )	(65 )	—	(249 )
Settlement charges	—	(5 )	(14 )	—	(19 )
Operating income (loss)	(1 )	(191 )	585	—	393
Interest (expense) income, net:					
External	1	(196 )	—	—	(195 )
Intercompany	—	(115 )	115	—	—
Equity in earnings of subsidiaries	127	32	—	(159 )	—
Income (loss) before income taxes	127	(470 )	700	(159 )	198
Federal, state and local income tax benefit (expense)	—	175	(249 )	—	(74 )
Net income (loss)	127	(295 )	451	(159 )	124
Net loss attributable to noncontrolling interest	—	—	3	—	3
Net income (loss) attributable to Macy's, Inc. shareholders	\$ 127	\$ (295 )	\$ 454	\$ (159 )	\$ 127
Comprehensive income (loss)	\$ 102	\$ (320 )	\$ 436	\$ (119 )	\$ 99
Comprehensive loss attributable to noncontrolling interest	—	—	3	—	3
Comprehensive income (loss) attributable to Macy's, Inc. shareholders	\$ 102	\$ (320 )	\$ 439	\$ (119 )	\$ 102

MACY'S, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

## Condensed Consolidating Statement of Comprehensive Income

For the 26 Weeks Ended August 1, 2015

(millions)

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

## MACY'S, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

## Condensed Consolidating Balance Sheet

As of July 30, 2016

(millions)

	Parent	Subsidiary Issuer	Other Subsidiaries	Consolidating Adjustments	Consolidated
<b>ASSETS:</b>					
Current Assets:					
Cash and cash equivalents	\$621	\$ 89	\$ 290	\$ —	\$ 1,000
Receivables	—	146	277	—	423
Merchandise inventories	—	2,500	2,822	—	5,322
Income tax receivable	8	11	—	(19	) —
Prepaid expenses and other current assets	—	84	387	—	471
Total Current Assets	629	2,830	3,776	(19	) 7,216
Property and Equipment – net	—	3,586	3,601	—	7,187
Goodwill	—	3,315	582	—	3,897
Other Intangible Assets – net	—	49	453	—	502
Other Assets	—	155	749	—	904
Deferred Income Taxes	23	—	—	(23	) —
Intercompany Receivable	—	—	2,710	(2,710	) —
Investment in Subsidiaries	4,524	3,247	—	(7,771	) —
Total Assets	\$5,176	\$ 13,182	\$ 11,871	\$ (10,523	) \$ 19,706
<b>LIABILITIES AND SHAREHOLDERS' EQUITY:</b>					
Current Liabilities:					
Short-term debt	\$—	\$ 1,062	\$ 1	\$ —	\$ 1,063
Merchandise accounts payable	—	825	1,052	—	1,877
Accounts payable and accrued liabilities	29	1,380	1,105	—	2,514
Income taxes	—	—	42	(19	) 23
Total Current Liabilities	29	3,267	2,200	(19	) 5,477
Long-Term Debt	—	6,549	18	—	6,567
Intercompany Payable	1,043	1,667	—	(2,710	) —
Deferred Income Taxes	—	653	818	(23	) 1,448
Other Liabilities	58	573	1,533	—	2,164
Shareholders' Equity:					
Macy's, Inc.	4,046	473	7,298	(7,771	) 4,046
Noncontrolling Interest	—	—	4	—	4
Total Shareholders' Equity	4,046	473	7,302	(7,771	) 4,050
Total Liabilities and Shareholders' Equity	\$5,176	\$ 13,182	\$ 11,871	\$ (10,523	) \$ 19,706



## MACY'S, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

## Condensed Consolidating Balance Sheet

As of August 1, 2015

(millions)

	Parent	Subsidiary Issuer	Other Subsidiaries	Consolidating Adjustments	Consolidated
<b>ASSETS:</b>					
Current Assets:					
Cash and cash equivalents	\$511	\$ 76	\$ 256	\$ —	\$ 843
Receivables	—	85	249	—	334
Merchandise inventories	—	2,712	2,784	—	5,496
Income tax receivable	98	—	—	(98	) —
Prepaid expenses and other current assets	—	104	333	—	437
Total Current Assets	609	2,977	3,622	(98	) 7,110
Property and Equipment – net	—	4,230	3,474	—	7,704
Goodwill	—	3,315	582	—	3,897
Other Intangible Assets – net	—	62	461	—	523
Other Assets	2	44	680	—	726
Deferred Income Taxes	24	—	—	(24	) —
Intercompany Receivable	—	—	3,634	(3,634	) —
Investment in Subsidiaries	4,779	3,640	—	(8,419	) —
Total Assets	\$5,414	\$ 14,268	\$ 12,453	\$ (12,175	) \$ 19,960
<b>LIABILITIES AND SHAREHOLDERS' EQUITY:</b>					
Current Liabilities:					
Short-term debt	\$—	\$ 82	\$ 1	\$ —	\$ 83
Merchandise accounts payable	—	930	1,012	—	1,942
Accounts payable and accrued liabilities	23	980	1,274	—	2,277
Income taxes	—	10	152	(98	) 64
Total Current Liabilities	23	2,002	2,439	(98	) 4,366
Long-Term Debt	—	7,132	19	—	7,151
Intercompany Payable	483	3,151	—	(3,634	) —
Deferred Income Taxes	—	736	737	(24	) 1,449
Other Liabilities	64	551	1,535	—	2,150
Shareholders' Equity:					
Macy's, Inc.	4,844	696	7,723	(8,419	) 4,844
Noncontrolling Interest	—	—	—	—	—
Total Shareholders' Equity	4,844	696	7,723	(8,419	) 4,844
Total Liabilities and Shareholders' Equity	\$5,414	\$ 14,268	\$ 12,453	\$ (12,175	) \$ 19,960



## MACY'S, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

## Condensed Consolidating Balance Sheet

As of January 30, 2016

(millions)

	Parent	Subsidiary Issuer	Other Subsidiaries	Consolidating Adjustments	Consolidated
<b>ASSETS:</b>					
Current Assets:					
Cash and cash equivalents	\$741	\$ 91	\$ 277	\$ —	\$ 1,109
Receivables	—	217	341	—	558
Merchandise inventories	—	2,702	2,804	—	5,506
Income tax receivable	44	—	—	(44	) —
Prepaid expenses and other current assets	—	135	344	—	479
Total Current Assets	785	3,145	3,766	(44	) 7,652
Property and Equipment – net	—	3,925	3,691	—	7,616
Goodwill	—	3,315	582	—	3,897
Other Intangible Assets – net	—	52	462	—	514
Other Assets	—	154	743	—	897
Deferred Income Taxes	14	—	—	(14	) —
Intercompany Receivable	—	—	3,800	(3,800	) —
Investment in Subsidiaries	4,725	3,804	—	(8,529	) —
Total Assets	\$5,524	\$ 14,395	\$ 13,044	\$ (12,387	) \$ 20,576
<b>LIABILITIES AND SHAREHOLDERS' EQUITY:</b>					
Current Liabilities:					
Short-term debt	\$—	\$ 641	\$ 1	\$ —	\$ 642
Merchandise accounts payable	—	667	859	—	1,526
Accounts payable and accrued liabilities	35	1,439	1,859	—	3,333
Income taxes	—	41	230	(44	) 227
Total Current Liabilities	35	2,788	2,949	(44	) 5,728
Long-Term Debt	—	6,976	19	—	6,995
Intercompany Payable	1,218	2,582	—	(3,800	) —
Deferred Income Taxes	—	693	798	(14	) 1,477
Other Liabilities	21	558	1,544	—	2,123
Shareholders' Equity:					
Macy's, Inc.	4,250	798	7,731	(8,529	) 4,250
Noncontrolling Interest	—	—	3	—	3
Total Shareholders' Equity	4,250	798	7,734	(8,529	) 4,253
Total Liabilities and Shareholders' Equity	\$5,524	\$ 14,395	\$ 13,044	\$ (12,387	) \$ 20,576



MACY'S, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

## Condensed Consolidating Statement of Cash Flows

For the 26 Weeks Ended July 30, 2016

(millions)

	Parent	Subsidiary Issuer	Other Subsidiaries	Consolidating Adjustments	Consolidated
Cash flows from operating activities:					
Net income (loss)	\$127	\$ (295 )	\$ 451	\$ (159 )	\$ 124
Impairments and other costs	—	184	65	—	249
Settlement charges	—	5	14	—	19
Equity in earnings of subsidiaries	(127 )	(32 )	—	159	—
Dividends received from subsidiaries	303	575	—	(878 )	—
Depreciation and amortization	—	205	315	—	520
(Increase) decrease in working capital	32	361	(733 )	—	(340 )
Other, net	17	(31 )	2	—	(12 )
Net cash provided by operating activities	352	972	114	(878 )	560
Cash flows from investing activities:					
Purchase of property and equipment and capitalized software, net	—	(50 )	(327 )	—	(377 )
Other, net	—	43	(4 )	—	39
Net cash used by investing activities	—	(7 )	(331 )	—	(338 )
Cash flows from financing activities:					
Debt repaid	—	(3 )	—	—	(3 )
Dividends paid	(228 )	—	(878 )	878	(228 )
Common stock acquired, net of issuance of common stock	(103 )	—	—	—	(103 )
Proceeds from noncontrolling interest	—	—	4	—	4
Intercompany activity, net	(139 )	(937 )	1,076	—	—
Other, net	(2 )	(27 )	28	—	(1 )
Net cash provided (used) by financing activities	(472 )	(967 )	230	878	(331 )
Net increase (decrease) in cash and cash equivalents	(120 )	(2 )	13	—	(109 )
Cash and cash equivalents at beginning of period	741	91	277	—	1,109
Cash and cash equivalents at end of period	\$621	\$ 89	\$ 290	\$ —	\$ 1,000

## MACY'S, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

## Condensed Consolidating Statement of Cash Flows

For the 26 Weeks Ended August 1, 2015

(millions)

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

MACY'S, INC.

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

For purposes of the following discussion, all references to "second quarter of 2016" and "second quarter of 2015" are to the Company's 13-week fiscal periods ended July 30, 2016 and August 1, 2015, respectively, and all references to "2016" and "2015" are to the Company's 26-week fiscal periods ended July 30, 2016 and August 1, 2015, 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 2015 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 2015 10-K (particularly in "Risk Factors" and in "Forward-Looking Statements"). This discussion includes non-GAAP financial measures. For information about these measures, see the disclosure under the caption "Important Information Regarding Non-GAAP Financial Measures" on pages 28 and 29.

Overview

The Company is an omnichannel retail organization operating stores, websites and mobile applications under three brands (Macy's, Bloomingdale's and Bluemercury) that sell a wide range of merchandise, including apparel and accessories (men's, women's and children's), cosmetics, home furnishings and other consumer goods. The Company's operations include approximately 880 Macy's, Macy's Backstage, Bloomingdale's, Bloomingdales Outlet and Bluemercury stores in 45 states, the District of Columbia, Guam and Puerto Rico, as well as macys.com, bloomingdales.com and bluemercury.com. In addition, Bloomingdale's in Dubai, United Arab Emirates is operated under a license agreement with Al Tayer Insignia, a company of Al Tayer Group, LLC.

The Company continues to be focused on three key strategies for 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 through building Magic connections. These strategies have evolved and the Company has developed specific initiatives to acquire new customers and strengthen loyalty, deliver distinctive merchandise, expand the digital frontier and new formats and to create signature customer experiences. 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 focus on localization is now evolving to one of personalization.

The Company's omnichannel strategy allows customers to shop seamlessly in stores and online, via desktops, laptops or mobile devices. A pivotal part of the omnichannel strategy is the Company's ability to allow associates in any store to sell a product that may be unavailable locally by shipping merchandise from other stores or customer fulfillment centers to the customer's door. Likewise, the Company's customer fulfillment centers can draw on store inventories nationwide to fill orders that originate online. Nearly all Macy's and Bloomingdale's stores are fulfilling orders from other stores and/or online for shipment and fulfilling orders for store pick-up related to online purchases, and the Company operates same-day delivery in 17 markets.

Macy's Magic connections is an approach to customer engagement that helps Macy's better understand the needs of customers, as well as provide merchandise options and advice. Macy's engages its customers through building Magic connections on the selling floor, through mobile apps and all other customer interactions.

MACY'S, INC.

In August 2016, the Company announced a series of initiatives to drive profitable growth, enhance shareholder value and strengthen Macy's as the preferred omnichannel shopping destination. The company will heighten the Macy's brand with exclusive products and an improved shopping experience. Plans also include re-creating Macy's physical store presence as customer shopping preferences and patterns evolve by operating fewer stores and concentrating financial resources and talent on the better-performing locations. As part of this strategy, the Company intends to close approximately 100 Macy's full-line stores (out of a current portfolio of 728 Macy's stores). Most of these stores will close early in 2017, with the balance closing as leases and certain operating covenants expire or are amended and waived. Macy's will reallocate investments to higher-growth-potential store and digital businesses. These investments will include adding new vendor shops, additional licensing agreements, increasing the size and quality of store staffing, and investing in capacity-building on the Company's websites and mobile apps.

In addition, the Company continues to pursue selected real estate dispositions to monetize assets in instances where the business is simultaneously enhanced or where the value of real estate significantly outweighs the value of the retail business. The Company is also in early-stage joint venture/strategic alliance discussions with various potential partners.

In January 2016, the Company completed a \$270 million real estate transaction that will enable a re-creation of Macy's Brooklyn store. The Company will continue to own and operate the first four floors and lower level of its existing nine-story retail store, which will be reconfigured and remodeled. The remaining portion of the store and its nearby parking facility were sold to Tishman Speyer in a single sales transaction. As the sales agreement requires the Company to conduct certain redevelopment activities at Macy's Brooklyn store, the Company will recognize a gain of approximately \$250 million under the percentage of completion method of accounting. Accordingly, \$99 million has been recognized to-date and the remaining gain is anticipated to be recognized over the next two years, with \$36 million expected to be recognized in fiscal 2016.

In 2015, the Company launched the marketing of potential partnership and joint venture transactions for certain of its real estate. This includes the owned mall-based properties, as well as Macy's flagship real estate assets in Manhattan (Herald Square), San Francisco (Union Square), Chicago (State Street) and Minneapolis (downtown Nicollet Mall). The Company continues to analyze prospective transactions for its flagship real state assets and is currently in preliminary negotiations to sell the Macy's Men's store on Union Square in San Francisco.

In 2015, the Company opened the first six pilot stores in Macy's new off-price business, Macy's Backstage, in the New York City metro area. The Macy's Backstage locations average about 30,000 square feet and sell an assortment of women's, men's and children's apparel, shoes, fashion accessories, housewares, home textiles, intimate apparel and jewelry. As of July 30, 2016, the Company is operating 16 Macy's Backstage locations (six freestanding and ten inside Macy's stores).

In March 2015, the Company completed its acquisition of Bluemercury, Inc., a luxury beauty products and spa retailer. The Company is focused on accelerating the growth of sales in freestanding Bluemercury stores in urban and suburban markets, enhancing its online capabilities and adding Bluemercury products and boutiques to Macy's stores. As of July 30, 2016, the Company is operating 103 Bluemercury locations (91 freestanding and 12 inside Macy's stores). During 2016, the Company opened 14 new freestanding Bluemercury stores.

The Company is focused on improving the recent business trend through a series of organic and new business initiatives. The initiatives include a focus on fine jewelry and watches, expansion of Macy's Backstage (including freestanding locations and inside existing Macy's stores), "Last Act" - a simplified pricing approach to clearance merchandise in Macy's stores, a focus on the "Top 150" store locations (including product presentation, customer service and special events), a focus on the beauty business including the expansion of Bluemercury freestanding locations and inside existing Macy's stores and a focus on enhancements to mobile technology. The Company is planning to offer customers greater newness and more exclusive merchandise through an array of new and exclusive product launches. The Company is also pursuing additional opportunities to reduce expense, while still investing in key areas including digital and customer service.

During the final 26 weeks of fiscal 2016, the Company intends to open one new Macy's store, 17 additional Bluemercury locations (ten freestanding and seven inside Macy's), six Macy's Backstage locations (one freestanding

and five inside Macy's stores) and one new Bloomingdale's Outlet.

In August 2015, the Company established a joint venture, Macy's China Limited, of which the Company holds a sixty-five percent ownership interest and Hong Kong-based Fung Retailing Limited holds the remaining thirty-five percent ownership interest. Macy's China Limited began selling merchandise in China in the fourth quarter of 2015 through an e-commerce presence on Alibaba Group's Tmall Global. The Company's periodic reporting includes the financial operations of Macy's China Limited, with the thirty-five percent ownership reported as a noncontrolling interest.

MACY'S, INC.

In May 2015, in conjunction with American Express, the Company helped launch Plenti, the coalition loyalty program that brings powerful brands together to give customers the chance to earn and redeem points where they choose. The loyalty program is free to join and members earn points on virtually all purchases at Macy's and other businesses that have joined as Plenti partners.

The Company's operations are impacted by competitive pressures from department stores, specialty stores, mass merchandisers, online retailers and all other retail channels. The Company's operations are also impacted by general consumer spending levels, including the impact of general economic conditions, consumer disposable income levels, consumer confidence levels, the availability, cost and level of consumer debt, the costs of basic necessities and other goods and the effects of weather or natural disasters and other factors over which the Company has little or no control. In recent years, consumer spending levels have been affected to varying degrees by a number of factors, including modest economic growth, uncertainty regarding governmental spending and tax policies, unemployment levels, tightened consumer credit, an improving housing market and a fluctuating stock market. In addition, consumer spending levels of international customers are impacted by the strength of the U.S. dollar relative to foreign currencies. These factors have affected, to varying degrees, the amount of funds that consumers are willing and able to spend for discretionary purchases, including purchases of some of the merchandise offered by the Company. All economic conditions ultimately affect the Company's overall operations. However, the effects of economic conditions can be experienced differently and at different times, in the various geographic regions in which the Company operates, in relation to the different types of merchandise that the Company offers for sale, or in relation to each of the Company's branded operations.

Based on its assessment of current and anticipated market conditions and its recent performance, the Company expects comparable sales on an owned plus licensed basis for fiscal 2016 to decrease in the range of 3% to 4% from 2015 levels, with comparable sales on an owned basis approximately 50 basis points lower. The Company currently expects that its earnings per share attributable to Macy's, Inc. in fiscal 2016 will be in the range of \$3.15 to \$3.40, excluding the impact of non-cash settlement charges relating to the Company's defined benefit plans and the impact of asset impairment and other costs associated primarily with plans to close approximately 100 stores.

## MACY'S, INC.

## Results of Operations

## Comparison of the Second Quarter of 2016 and the Second Quarter of 2015

	Second Quarter of 2016		Second Quarter of 2015	
	Amount	% to Sales	Amount	% to Sales
	(dollars in millions, except per share figures)			
Net sales	\$5,866		\$6,104	
Decrease in sales	(3.9 )%		(2.6 )%	
Decrease in comparable sales	(2.6 )%		(2.1 )%	
Cost of sales	(3,468 )	(59.1)%	(3,610 )	(59.1)%
Gross margin	2,398	40.9 %	2,494	40.9 %
Selling, general and administrative expenses	(2,026 )			