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 3, 2018

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

macy's inc

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 every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐ Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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 December 1, 2018
Common Stock, $0.01 par value per share	307,467,240 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 3, 2018	October 28, 2017	November 3, 2018	October 28, 2017
Net sales	$ 5,404	$ 5,281	$ 16,516	$ 16,267
Credit card revenues, net	185	145	528	473
Cost of sales	(3,226)	(3,152)	(9,927)	(9,858)
Selling, general and administrative expenses	(2,255)	(2,188)	(6,501)	(6,406)
Gains on sale of real estate	42	65	111	176
Impairment, restructuring and other costs	(3)	(33)	(39)	(33)
Operating income	147	118	688	619
Benefit plan income, net	9	15	31	42
Settlement charges	(23)	(22)	(73)	(73)
Interest expense	(64)	(76)	(204)	(244)
Losses on early retirement of debt	—	—	(5)	(1)
Interest income	5	2	17	7
Income before income taxes	74	37	454	350
Federal, state and local income tax expense	(12)	(10)	(96)	(138)
Net income	62	27	358	212
Net loss attributable to noncontrolling interest	—	3	10	7
Net income attributable to Macy's, Inc. shareholders	$ 62	$ 30	$ 368	$ 219
Basic earnings per share attributable to Macy's, Inc. shareholders	$ 0.20	$ 0.10	$ 1.20	$ 0.72
Diluted earnings per share attributable to Macy's, Inc. shareholders	$ 0.20	$ 0.10	$ 1.18	$ 0.71

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 3, 2018	**October 28, 2017**	**November 3, 2018**	**October 28, 2017**
Net income	$ 62	$ 27	$ 358	$ 212
Other comprehensive income (loss):				
Actuarial gain (loss) on post employment and postretirement benefit plans, before tax	(164)	10	(194)	57
Reclassifications to net income:				
Amortization of net actuarial loss and prior service credit on post employment and postretirement benefit plans included in net income, before tax	7	8	25	26
Settlement charges, before tax	23	22	73	73
Tax effect related to items of other comprehensive income (loss)	35	(15)	24	(60)
Total other comprehensive income (loss), net of tax effect	(99)	25	(72)	96
Comprehensive income (loss)	(37)	52	286	308
Comprehensive loss attributable to noncontrolling interest	—	3	10	7
Comprehensive income (loss) attributable to Macy's, Inc. shareholders	$ (37)	$ 55	$ 296	$ 315

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

MACY'S, INC.

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(millions)

	November 3, 2018	February 3, 2018	October 28, 2017
ASSETS			
Current Assets:			
Cash and cash equivalents	$ 736	$ 1,455	$ 534
Receivables	180	363	219
Merchandise inventories	7,147	5,178	7,065
Income tax receivable	10	—	—
Prepaid expenses and other current assets	594	650	610
Total Current Assets	8,667	7,646	8,428
Property and Equipment - net of accumulated depreciation and amortization of $5,084, $4,610 and $5,330	6,572	6,672	6,742
Goodwill	3,908	3,897	3,897
Other Intangible Assets – net	481	488	491
Other Assets	733	880	835
Total Assets	$ 20,361	$ 19,583	$ 20,393
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities:			
Short-term debt	$ 65	$ 22	$ 22
Merchandise accounts payable	3,381	1,590	3,173
Accounts payable and accrued liabilities	2,998	3,271	3,257
Income taxes	—	296	34
Total Current Liabilities	6,444	5,179	6,486
Long-Term Debt	5,469	5,861	6,297
Deferred Income Taxes	1,185	1,148	1,586
Other Liabilities	1,618	1,662	1,750
Shareholders' Equity:			
Macy's, Inc.	5,667	5,745	4,282
Noncontrolling interest	(22)	(12)	(8)
Total Shareholders' Equity	5,645	5,733	4,274
Total Liabilities and Shareholders' Equity	$ 20,361	$ 19,583	$ 20,393

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 3, 2018	**October 28, 2017**
Cash flows from operating activities:		
Net income	$ 358	$ 212
Adjustments to reconcile net income to net cash provided by operating activities:		
Impairment, restructuring and other costs	39	33
Settlement charges	73	73
Depreciation and amortization	718	741
Stock-based compensation expense	48	46
Gains on sale of real estate	(111)	(176)
Amortization of financing costs and premium on acquired debt	(5)	(10)
Changes in assets and liabilities:		
Decrease in receivables	163	274
Increase in merchandise inventories	(1,969)	(1,665)
Decrease in prepaid expenses and other current assets	16	34
Increase in merchandise accounts payable	1,664	1,630
Decrease in accounts payable, accrued liabilities and other items not separately identified	(196)	(412)
Decrease in current income taxes	(301)	(321)
Increase in deferred income taxes	62	47
Change in other assets and liabilities not separately identified	(130)	(107)
Net cash provided by operating activities	429	399
Cash flows from investing activities:		
Purchase of property and equipment	(468)	(359)
Additions to capitalized software	(209)	(191)
Disposition of property and equipment	121	212
Other, net	7	9
Net cash used by investing activities	(549)	(329)
Cash flows from financing activities:		
Debt repaid	(361)	(564)
Dividends paid	(347)	(346)
Increase in outstanding checks	44	80
Acquisition of treasury stock	—	(1)
Issuance of common stock	41	3
Proceeds from noncontrolling interest	7	12
Net cash used by financing activities	(616)	(816)
Net decrease in cash, cash equivalents and restricted cash	(736)	(746)
Cash, cash equivalents and restricted cash beginning of period	1,513	1,334
Cash, cash equivalents and restricted cash end of period	$ 777	$ 588
Supplemental cash flow information:		
Interest paid	$ 213	$ 251
Interest received	17	7
Income taxes paid (net of refunds received)	335	412

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

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 kids), cosmetics, home furnishings and other consumer goods. The Company operates approximately 870 stores in 44 states, the District of Columbia, Guam and Puerto Rico. As of November 3, 2018, the Company's operations were conducted through Macy's, Bloomingdale's, Bloomingdale's The Outlet, Macy's Backstage, bluemercury and STORY.

Bloomingdale's in Dubai, United Arab Emirates and Al Zahra, Kuwait are 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 3, 2018 (the "2017 10-K"). The accompanying Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and notes thereto in the 2017 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 39 weeks ended November 3, 2018 and October 28, 2017, 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 3, 2018 and October 28, 2017 (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 to the classifications of such amounts in the most recent years and adoption of new accounting standards as discussed in more detail below.

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 39 weeks ended November 3, 2018 and October 28, 2017 relate to post employment and postretirement plan items. Settlement charges incurred are included as a separate component of income before income taxes in the Consolidated Statements of Income. Amortization reclassifications out of accumulated other comprehensive loss are included in the computation of net periodic benefit cost (income) and are included in benefit plan income, net on the Consolidated Statements of Income. See Note 4, "Benefit Plans," for further information.

Net sales

Revenue is recognized when customers obtain control of goods and services promised by the Company. The amount of revenue recognized is based on the amount that reflects the consideration that is expected to be received in exchange for those respective goods and services. The Company's revenue generating activities include the following:

Retail Sales

Retail sales include merchandise sales, licensed department income, sales of private brand goods directly to third party retailers and sales of excess inventory to third parties. Sales of merchandise are recorded at the time of shipment to the customer and are reported net of estimated merchandise returns and certain customer incentives. Commissions earned on sales generated by licensed departments are included as a component of total net sales and are recognized as revenue at the time merchandise is sold to customers. Service revenues (e.g., alteration and cosmetic services) are recorded at the time the customer receives the benefit of the service. The Company has elected to present sales taxes on a net basis and, as such, sales taxes are included in accounts payable and accrued liabilities until remitted to the taxing authorities.

For the 13 and 39 weeks ended November 3, 2018 and October 28, 2017, Macy's accounted for 88% of the Company's net sales. Disaggregation of the Company's net sales by family of business for the 13 and 39 weeks ended November 3, 2018 and October 28, 2017 were as follows:

	13 Weeks Ended		39 Weeks Ended	
Net sales by family of business	**November 3, 2018**	**October 28, 2017**	**November 3, 2018**	**October 28, 2017**
	(millions)			
Women's Accessories, Intimate Apparel, Shoes, Cosmetics and Fragrances	$ 2,010	$ 1,989	$ 6,221	$ 6,122
Women's Apparel	1,264	1,247	3,969	3,989
Men's and Kids	1,243	1,184	3,702	3,558
Home/Other (a)	887	861	2,624	2,598
Total	$ 5,404	$ 5,281	$ 16,516	$ 16,267

(a) Other primarily includes restaurant sales, certain loyalty program income and breakage income from unredeemed gift cards.

Merchandise Returns

The Company estimates merchandise returns using historical data and recognizes an allowance that reduces net sales and cost of sales. The liability for merchandise returns is included in accounts payable and accrued liabilities on the Company's Consolidated Balance Sheets and was $265 million, $291 million and $260 million as of November 3, 2018, February 3, 2018 and October 28, 2017, respectively. Included in prepaid expenses and other current assets is an asset totaling $180 million, $201 million and $178 million as of November 3, 2018, February 3, 2018 and October 28, 2017, respectively, for the recoverable cost of merchandise estimated to be returned by customers.

Gift Cards and Customer Loyalty Programs

The Company only offers no-fee, non-expiring gift cards to its customers. At the time gift cards are sold or issued, no revenue is recognized; rather, the Company records an accrued liability to customers. The liability is relieved and revenue is recognized equal to the amount redeemed at the time gift cards are redeemed for merchandise. The Company records revenue from unredeemed gift cards (breakage) in net sales on a pro-rata basis over the time period gift cards are actually redeemed. At least three years of historical data, updated annually, is used to determine actual redemption patterns.

The Company maintains customer loyalty programs in which customers earn points based on their purchases. Under the Macy's brand, points are earned based on customers' spending on Macy's private label and co-branded credit cards as well as non-proprietary cards during certain tender-neutral promotional events. Under the Bloomingdale's brand, the Company offers a tender neutral points-based program. The Company recognizes the estimated net amount of the rewards that will be earned and redeemed as a reduction to net sales at the time of the initial transaction and as tender when the points are subsequently redeemed by a customer.

The liability for unredeemed gift cards and customer loyalty programs is included in accounts payable and accrued liabilities on the Company's Consolidated Balance Sheets and was $711 million, $894 million and $707 million as of November 3, 2018, February 3, 2018 and October 28, 2017, respectively.

Credit Card Revenues, net

In 2005, the Company entered into an arrangement with Citibank to sell the Company's private label and co-branded credit cards ("Credit Card Program"). Subsequent to this initial arrangement and associated amendments, in 2014, the Company entered into an amended and restated Credit Card Program Agreement (the "Program Agreement") with Citibank. As part of the Program Agreement, the Company receives payments for providing a combination of interrelated services and intellectual property to Citibank in support of the underlying Credit Card Program. Revenue based on the spending activity of the underlying accounts is recognized as the respective card purchases occur and the Company's profit share is recognized based on the performance of the underlying portfolio. Revenue associated with the establishment of new credit accounts and assisting in the receipt of payments for existing accounts is recognized as such activities occur. Credit card revenues include finance charges, late fees and other revenue generated by the Company's Credit Card Program, net of fraud losses and expenses associated with establishing new accounts.

Newly Adopted Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers, which established principles to report useful information to financial statements users about the nature, timing and uncertainty of revenue from contracts with customers. ASU No. 2014-09 along with various related amendments comprise ASC Topic 606, Revenue from Contracts with Customers, and provide guidance that is applicable to all contracts with customers regardless of industry-specific or transaction-specific fact patterns. The new standard and its related updates were adopted by the Company on February 4, 2018. On the effective date, the Company elected to apply the new guidance retrospectively to each prior period presented which resulted in an increase to retained earnings of $72 million and $54 million at the beginning of fiscal 2018 and fiscal 2017, respectively.

Overall, the new standard did not have a material impact on the results of the Company's operations or consolidated statements of financial position, but impacted the presentation and timing of certain revenue transactions. Specifically, the changes included gross presentation of the Company's estimates for future sales returns and related recoverable assets, presenting income from credit operations, gift card breakage income, and certain loyalty program income as separate components of revenue and recognizing gift card breakage revenue over the period of redemption for gift cards associated with certain returns. The Company's evaluation of the new standards included a review of certain vendor arrangements to determine whether the Company acts as principal or agent in such arrangements and such evaluation did not result in any material changes in gross versus net presentation as a result of the adoption of the new standards.

In March 2017, the FASB issued ASU No. 2017-07, Compensation-Retirement Benefits (ASC Topic 715), which requires employers to disaggregate the service cost component from other components of net periodic benefit costs and to disclose the amounts of net periodic benefit costs that are included in each income statement line item. The standard requires employers to report the service cost component in the same line item as other compensation costs and to report the other components of net periodic benefit costs (which include interest costs, expected return on plan assets, amortization of prior service cost or credits and actuarial gains and losses) separately and outside a subtotal of operating income. The Company adopted this standard effective February 4, 2018 on a retrospective basis to each prior period presented and has recognized its net periodic benefit costs, excluding service costs, in benefit plan income, net on its Consolidated Statements of Income.

In 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (ASC Topic 230): Restricted Cash, and ASU No. 2016-15, Statement of Cash Flows (ASC Topic 230): Classification of Certain Cash Receipts and Cash Payments. These standards were issued to resolve numerous diversities in practice with regard to the presentation and classification of certain cash receipts and payments in the statement of cash flows. The standards were effective for the Company on February 4, 2018, and were adopted using a retrospective transition method to each prior period presented. As a result of these standards, the Company included its beginning-of-period restricted cash balances of $58 million and end-of-period restricted cash balances of $41 million when reconciling the Consolidated Statement of Cash Flow movement for the 39 weeks ended November 3, 2018. Similarly, for the 39 weeks ended October 28, 2017, the Company included its beginning-of-period restricted cash balances of $37 million and end-of-period restricted cash balances of $54 million. In addition to these changes, the Company changed the classification of $10 million of cash payments for the prepayment of debt from an operating outflow to a financing outflow for the 39 weeks ended October 28, 2017.

In February 2018, the FASB issued ASU No. 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, which allows for stranded tax effects in accumulated other comprehensive income resulting from H.R. 1, originally known as the "Tax Cuts and Jobs Act," to be reclassified to retained earnings. The Company early adopted this standard during the first quarter of 2018 and, as a result, reclassified $164 million of stranded tax effects to retained earnings.

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					
	November 3, 2018			October 28, 2017		
	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	$ 62		307.2	$ 30		304.6
Shares to be issued under deferred compensation and other plans			0.9			0.9
	$ 62		308.1	$ 30		305.5
Basic earnings per share attributable to Macy's, Inc. shareholders		$ 0.20			$ 0.10	
Effect of dilutive securities:						
Stock options, restricted stock and restricted stock units			4.1			1.0
	$ 62		312.2	$ 30		306.5
Diluted earnings per share attributable to Macy's, Inc. shareholders		$ 0.20			$ 0.10	

	39 Weeks Ended					
	November 3, 2018			October 28, 2017		
	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	$ 368		306.6	$ 219		304.5
Shares to be issued under deferred compensation and other plans			0.9			0.8
	$ 368		307.5	$ 219		305.3
Basic earnings per share attributable to Macy's, Inc. shareholders		$ 1.20			$ 0.72	
Effect of dilutive securities:						
Stock options, restricted stock and restricted stock units			3.7			1.3
	$ 368		311.2	$ 219		306.6
Diluted earnings per share attributable to Macy's, Inc. shareholders		$ 1.18			$ 0.71	

In addition to the stock options and restricted stock units reflected in the foregoing tables, stock options to purchase 12.7 million shares of common stock and restricted stock units relating to 1.4 million shares of common stock were outstanding at November 3, 2018, but were not included in the computation of diluted earnings per share 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 and restricted stock units reflected in the foregoing tables, stock options to purchase 18.9 million shares of common stock and restricted stock units relating to 1.2 million shares of common stock were outstanding at October 28, 2017, but were not included in the computation of diluted earnings per share because their inclusion would have been antidilutive or they were subject to performance conditions that had not been met.

3. Financing Activities

The following table shows the detail of debt repayments:

	39 Weeks Ended	
	November 3, 2018	October 28, 2017
	(millions)	
7.45% Senior debentures due 2017	$ —	$ 300
6.9% Senior debentures due 2029	90	3
4.5% Senior notes due 2034	80	—
6.7% Senior notes due 2028	60	3
6.375% Senior notes due 2037	43	135
6.7% Senior debentures due 2034	28	28
7.0% Senior debentures due 2028	27	2
6.65% Senior debentures due 2024	11	4
6.9% Senior debentures due 2032	5	72
9.5% Amortizing debentures due 2021	4	4
9.75% Amortizing debentures due 2021	2	2
Capital leases and other obligations	1	1
	$ 351	$ 554

During the 39 weeks ended November 3, 2018, the Company repurchased $344 million face value of senior notes and debentures. The debt repurchases were made in the open market for a total cost of $354 million, including expenses and other fees related to the transactions. Such repurchases resulted in the recognition of expense of $5 million during the 39 weeks ended November 3, 2018 presented as losses on early retirement of debt on the Consolidated Statements of Income.

During the 39 weeks ended October 28, 2017, the Company repurchased $247 million face value of senior notes and debentures. The debt repurchases were made in the open market for a total cost of $257 million, including expenses and other fees related to the transactions. Such repurchases resulted in the recognition of expense of $1 million during the 39 weeks ended October 28, 2017 presented as losses on early retirement of debt on the Consolidated Statements of Income.

During the 39 weeks ended October 28, 2017, the Company also repaid, at maturity, $300 million of 7.45% Senior debentures due July 2017.

On November 28, 2018, the Company commenced a cash tender offer ("tender offer") to purchase up to $600 million in aggregate principal amount of certain senior unsecured notes and debentures, with stated interest rates ranging from 2.875% to 8.75% and maturities ranging from fiscal years 2023 to 2042. The tender offer expires on December 26, 2018, with an early tender date on December 11, 2018.

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.

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		39 Weeks Ended	
	November 3, 2018	October 28, 2017	November 3, 2018	October 28, 2017
	(millions)		(millions)	
401(k) Qualified Defined Contribution Plan	$ 24	$ 20	$ 71	$ 65
Non-Qualified Defined Contribution Plan	$ —	$ —	$ 1	$ —
Pension Plan				
Service cost	$ 1	$ 1	$ 4	$ 4
Interest cost	28	25	81	79
Expected return on assets	(51)	(55)	(157)	(168)
Recognition of net actuarial loss	7	8	23	24
Amortization of prior service credit	—	—	—	—
	$ (15)	$ (21)	$ (49)	$ (61)
Supplementary Retirement Plan				
Service cost	$ —	$ —	$ —	$ —
Interest cost	6	6	17	17
Recognition of net actuarial loss	2	2	6	6
Amortization of prior service cost	—	—	—	—
	$ 8	$ 8	$ 23	$ 23
Total Retirement Expense	$ 17	$ 7	$ 46	$ 27
Postretirement Obligations				
Service cost	$ —	$ —	$ —	$ —
Interest cost	1	1	3	4
Recognition of net actuarial gain	(2)	(2)	(4)	(4)
Amortization of prior service credit	—	—	—	—
	$ (1)	$ (1)	$ (1)	$ —

For the 13 and 39 weeks ended November 3, 2018, the Company incurred non-cash settlement charges of $23 million and $73 million, respectively, related to the Company's defined benefit plans. For the 13 and 39 weeks ended October 28, 2017, the Company incurred non-cash settlement charges of $22 million and $73 million, respectively. These charges relate to the pro-rata recognition of net actuarial losses and are the result of an increase in lump sum distributions primarily associated with retiree distribution elections and restructuring activity.

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 3, 2018				October 28, 2017			
		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	$ 96	$ 26	$ 70	$ —	$ 100	$ 23	$ 77	$ —

Other financial instruments not measured at fair value on a recurring basis include cash and cash equivalents, receivables, certain short-term investments and other assets, 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, excluding capital leases and other obligations:

	November 3, 2018			October 28, 2017		
	Notional Amount	Carrying Amount	Fair Value	Notional Amount	Carrying Amount	Fair Value
	(millions)					
Long-term debt	$ 5,420	$ 5,444	$ 5,170	$ 6,206	$ 6,271	$ 5,908

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 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 39 weeks ended November 3, 2018 and October 28, 2017, Condensed Consolidating Balance Sheets as of November 3, 2018, October 28, 2017 and February 3, 2018, and the related Condensed Consolidating Statements of Cash Flows for the 39 weeks ended November 3, 2018 and October 28, 2017 are presented on the following pages.

Condensed Consolidating Statement of Comprehensive Income
For the 13 Weeks Ended November 3, 2018
(millions)

	Parent	Subsidiary Issuer	Other Subsidiaries	Consolidating Adjustments	Consolidated
Net sales	$ —	$ 2,030	$ 6,185	$ (2,811)	$ 5,404
Credit card revenues, net	—	—	185	—	185
Cost of sales	—	(1,266)	(4,771)	2,811	(3,226)
Selling, general and administrative expenses	—	(883)	(1,372)	—	(2,255)
Gains on sale of real estate	—	41	1	—	42
Restructuring and other costs	—	—	(3)	—	(3)
Operating income (loss)	—	(78)	225	—	147
Benefit plan income, net	—	3	6	—	9
Settlement charges	—	(8)	(15)	—	(23)
Interest (expense) income, net:					
External	4	(64)	1	—	(59)
Intercompany	—	(18)	18	—	—
Equity in earnings (loss) of subsidiaries	59	(58)	—	(1)	—
Income (loss) before income taxes	63	(223)	235	(1)	74
Federal, state and local income tax benefit (expense)	(1)	57	(68)	—	(12)
Net income (loss)	62	(166)	167	(1)	62
Net loss attributable to noncontrolling interest	—	—	—	—	—
Net income (loss) attributable to Macy's, Inc. shareholders	$ 62	$ (166)	$ 167	$ (1)	$ 62
Comprehensive income (loss)	$ (37)	$ (257)	$ 106	$ 151	$ (37)
Comprehensive loss attributable to noncontrolling interest	—	—	—	—	—
Comprehensive income (loss) attributable to Macy's, Inc. shareholders	$ (37)	$ (257)	$ 106	$ 151	$ (37)

Condensed Consolidating Statement of Comprehensive Income
For the 13 Weeks Ended October 28, 2017
(millions)

	Parent	Subsidiary Issuer	Other Subsidiaries	Consolidating Adjustments	Consolidated
Net sales	$ —	$ 2,073	$ 5,865	$ (2,657)	$ 5,281
Credit card revenues, net	—	—	145	—	145
Cost of sales	—	(1,382)	(4,427)	2,657	(3,152)
Selling, general and administrative expenses	—	(834)	(1,354)	—	(2,188)
Gains on sale of real estate	—	24	41	—	65
Restructuring and other costs	—	(1)	(32)	—	(33)
Operating income (loss)	—	(120)	238	—	118
Benefit plan income, net	—	6	9	—	15
Settlement charges	—	(8)	(14)	—	(22)
Interest (expense) income, net:					
External	1	(76)	1	—	(74)
Intercompany	—	(34)	34	—	—
Equity in earnings (loss) of subsidiaries	29	(57)	—	28	—
Income (loss) before income taxes	30	(289)	268	28	37
Federal, state and local income tax benefit (expense)	—	59	(69)	—	(10)
Net income (loss)	30	(230)	199	28	27
Net loss attributable to noncontrolling interest	—	—	3	—	3
Net income (loss) attributable to Macy's, Inc. shareholders	$ 30	$ (230)	$ 202	$ 28	$ 30
Comprehensive income (loss)	$ 55	$ (207)	$ 215	$ (11)	$ 52
Comprehensive loss attributable to noncontrolling interest	—	—	3	—	3
Comprehensive income (loss) attributable to Macy's, Inc. shareholders	$ 55	$ (207)	$ 218	$ (11)	$ 55

Condensed Consolidating Statement of Comprehensive Income
For the 39 Weeks Ended November 3, 2018
(millions)

	Parent	Subsidiary Issuer	Other Subsidiaries	Consolidating Adjustments	Consolidated
Net sales	$ —	$ 6,110	$ 16,462	$ (6,056)	$ 16,516
Credit card revenues (expense), net	—	(3)	531	—	528
Cost of sales	—	(3,857)	(12,126)	6,056	(9,927)
Selling, general and administrative expenses	—	(2,522)	(3,979)	—	(6,501)
Gains on sale of real estate	—	83	28	—	111
Impairment, restructuring and other costs	—	—	(39)	—	(39)
Operating income (loss)	—	(189)	877	—	688
Benefit plan income, net	—	12	19	—	31
Settlement charges	(5)	(24)	(44)	—	(73)
Interest (expense) income, net:					
External	13	(203)	3	—	(187)
Intercompany	—	(54)	54	—	—
Losses on early retirement of debt	—	(5)	—	—	(5)
Equity in earnings of subsidiaries	362	51	—	(413)	—
Income (loss) before income taxes	370	(412)	909	(413)	454
Federal, state and local income tax benefit (expense)	(2)	123	(217)	—	(96)
Net income (loss)	368	(289)	692	(413)	358
Net loss attributable to noncontrolling interest	—	—	10	—	10
Net income (loss) attributable to Macy's, Inc. shareholders	$ 368	$ (289)	$ 702	$ (413)	$ 368
Comprehensive income (loss)	$ 296	$ (357)	$ 646	$ (299)	$ 286
Comprehensive loss attributable to noncontrolling interest	—	—	10	—	10
Comprehensive income (loss) attributable to Macy's, Inc. shareholders	$ 296	$ (357)	$ 656	$ (299)	$ 296

Condensed Consolidating Statement of Comprehensive Income
For the 39 Weeks Ended October 28, 2017
(millions)

	Parent	Subsidiary Issuer	Other Subsidiaries	Consolidating Adjustments	Consolidated
Net sales	$ —	$ 6,358	$ 15,784	$ (5,875)	$ 16,267
Credit card revenues (expense), net	—	(2)	475	—	473
Cost of sales	—	(4,160)	(11,573)	5,875	(9,858)
Selling, general and administrative expenses	(1)	(2,458)	(3,947)	—	(6,406)
Gains on sale of real estate	—	116	60	—	176
Restructuring and other costs	—	(1)	(32)	—	(33)
Operating income (loss)	(1)	(147)	767	—	619
Benefit plan income, net	—	16	26	—	42
Settlement charges	—	(24)	(49)	—	(73)
Interest (expense) income, net:					
External	4	(243)	2	—	(237)
Intercompany	—	(102)	102	—	—
Losses on early retirement of debt	—	(1)	—	—	(1)
Equity in earnings (loss) of subsidiaries	217	(26)	—	(191)	—
Income (loss) before income taxes	220	(527)	848	(191)	350
Federal, state and local income tax benefit (expense)	(1)	142	(279)	—	(138)
Net income (loss)	219	(385)	569	(191)	212
Net loss attributable to noncontrolling interest	—	—	7	—	7
Net income (loss) attributable to Macy's, Inc. shareholders	$ 219	$ (385)	$ 576	$ (191)	$ 219
Comprehensive income (loss)	$ 315	$ (295)	$ 632	$ (344)	$ 308
Comprehensive loss attributable to noncontrolling interest	—	—	7	—	7
Comprehensive income (loss) attributable to Macy's, Inc. shareholders	$ 315	$ (295)	$ 639	$ (344)	$ 315

Condensed Consolidating Balance Sheet
As of November 3, 2018
(millions)

	Parent	Subsidiary Issuer	Other Subsidiaries	Consolidating Adjustments	Consolidated
ASSETS:					
Current Assets:					
Cash and cash equivalents	$ 426	$ 74	$ 236	$ —	$ 736
Receivables	1	25	154	—	180
Merchandise inventories	—	3,112	4,035	—	7,147
Income tax receivable	81	—	—	(71)	10
Prepaid expenses and other current assets	—	139	455	—	594
Total Current Assets	508	3,350	4,880	(71)	8,667
Property and Equipment – net	—	3,244	3,328	—	6,572
Goodwill	—	3,326	582	—	3,908
Other Intangible Assets – net	—	40	441	—	481
Other Assets	—	39	694	—	733
Deferred Income Taxes	11	—	—	(11)	—
Intercompany Receivable	1,725	—	882	(2,607)	—
Investment in Subsidiaries	3,639	3,028	—	(6,667)	—
Total Assets	$ 5,883	$ 13,027	$ 10,807	$ (9,356)	$ 20,361
LIABILITIES AND SHAREHOLDERS' EQUITY:					
Current Liabilities:					
Short-term debt	$ —	$ 42	$ 23	$ —	$ 65
Merchandise accounts payable	—	1,515	1,866	—	3,381
Accounts payable and accrued liabilities	192	874	1,932	—	2,998
Income taxes	—	40	31	(71)	—
Total Current Liabilities	192	2,471	3,852	(71)	6,444
Long-Term Debt	—	5,453	16	—	5,469
Intercompany Payable	—	2,607	—	(2,607)	—
Deferred Income Taxes	—	619	577	(11)	1,185
Other Liabilities	24	431	1,163	—	1,618
Shareholders' Equity:					
Macy's, Inc.	5,667	1,446	5,221	(6,667)	5,667
Noncontrolling Interest	—	—	(22)	—	(22)
Total Shareholders' Equity	5,667	1,446	5,199	(6,667)	5,645
Total Liabilities and Shareholders' Equity	$ 5,883	$ 13,027	$ 10,807	$ (9,356)	$ 20,361

Condensed Consolidating Balance Sheet
As of October 28, 2017
(millions)

	Parent	Subsidiary Issuer	Other Subsidiaries	Consolidating Adjustments	Consolidated
ASSETS:					
Current Assets:					
Cash and cash equivalents	$ 116	$ 89	$ 329	$ —	$ 534
Receivables	—	67	152	—	219
Merchandise inventories	—	3,218	3,847	—	7,065
Income tax receivable	—	2	—	(2)	—
Prepaid expenses and other current assets	—	141	469	—	610
Total Current Assets	116	3,517	4,797	(2)	8,428
Property and Equipment – net	—	3,370	3,372	—	6,742
Goodwill	—	3,315	582	—	3,897
Other Intangible Assets – net	—	46	445	—	491
Other Assets	1	62	772	—	835
Deferred Income Taxes	27	—	—	(27)	—
Intercompany Receivable	1,436	—	2,161	(3,597)	—
Investment in Subsidiaries	2,932	3,700	—	(6,632)	—
Total Assets	$ 4,512	$ 14,010	$ 12,129	$ (10,258)	$ 20,393
LIABILITIES AND SHAREHOLDERS' EQUITY:					
Current Liabilities:					
Short-term debt	$ —	$ 6	$ 16	$ —	$ 22
Merchandise accounts payable	—	1,339	1,834	—	3,173
Accounts payable and accrued liabilities	139	1,008	2,110	—	3,257
Income taxes	20	—	16	(2)	34
Total Current Liabilities	159	2,353	3,976	(2)	6,486
Long-Term Debt	—	6,280	17	—	6,297
Intercompany Payable	—	3,597	—	(3,597)	—
Deferred Income Taxes	—	731	882	(27)	1,586
Other Liabilities	71	476	1,203	—	1,750
Shareholders' Equity:					
Macy's, Inc.	4,282	573	6,059	(6,632)	4,282
Noncontrolling Interest	—	—	(8)	—	(8)
Total Shareholders' Equity	4,282	573	6,051	(6,632)	4,274
Total Liabilities and Shareholders' Equity	$ 4,512	$ 14,010	$ 12,129	$ (10,258)	$ 20,393

Condensed Consolidating Balance Sheet
As of February 3, 2018
(millions)

	Parent	Subsidiary Issuer	Other Subsidiaries	Consolidating Adjustments	Consolidated
ASSETS:					
Current Assets:					
Cash and cash equivalents	$ 1,109	$ 58	$ 288	$ —	$ 1,455
Receivables	—	85	278	—	363
Merchandise inventories	—	2,344	2,834	—	5,178
Prepaid expenses and other current assets	—	165	485	—	650
Total Current Assets	1,109	2,652	3,885	—	7,646
Property and Equipment – net	—	3,349	3,323	—	6,672
Goodwill	—	3,315	582	—	3,897
Other Intangible Assets – net	—	44	444	—	488
Other Assets	1	89	790	—	880
Deferred Income Taxes	11	—	—	(11)	—
Intercompany Receivable	884	—	2,388	(3,272)	—
Investment in Subsidiaries	4,032	4,126	—	(8,158)	—
Total Assets	$ 6,037	$ 13,575	$ 11,412	$ (11,441)	$ 19,583
LIABILITIES AND SHAREHOLDERS' EQUITY:					
Current Liabilities:					
Short-term debt	$ —	$ 6	$ 16	$ —	$ 22
Merchandise accounts payable	—	653	937	—	1,590
Accounts payable and accrued liabilities	159	980	2,132	—	3,271
Income taxes	113	30	153	—	296
Total Current Liabilities	272	1,669	3,238	—	5,179
Long-Term Debt	—	5,844	17	—	5,861
Intercompany Payable	—	3,272	—	(3,272)	—
Deferred Income Taxes	—	559	600	(11)	1,148
Other Liabilities	20	430	1,212	—	1,662
Shareholders' Equity:					
Macy's, Inc.	5,745	1,801	6,357	(8,158)	5,745
Noncontrolling Interest	—	—	(12)	—	(12)
Total Shareholders' Equity	5,745	1,801	6,345	(8,158)	5,733
Total Liabilities and Shareholders' Equity	$ 6,037	$ 13,575	$ 11,412	$ (11,441)	$ 19,583

Condensed Consolidating Statement of Cash Flows
For the 39 Weeks Ended November 3, 2018
(millions)

	Parent	Subsidiary Issuer	Other Subsidiaries	Consolidating Adjustments	Consolidated
Cash flows from operating activities:					
Net income (loss)	$ 368	$ (289)	$ 692	$ (413)	$ 358
Equity in earnings of subsidiaries	(362)	(51)	—	413	—
Impairment, restructuring and other costs	—	—	39	—	39
Settlement charges	5	24	44	—	73
Dividends received from subsidiaries	689	—	—	(689)	—
Depreciation and amortization	—	250	468	—	718
Gains on sale of real estate	—	(83)	(28)	—	(111)
Changes in assets, liabilities and other items not separately identified	(191)	115	(571)	(1)	(648)
Net cash provided (used) by operating activities	509	(34)	644	(690)	429
Cash flows from investing activities:					
Purchase of property and equipment and capitalized software, net of dispositions	—	(98)	(458)	—	(556)
Other, net	—	(15)	(29)	51	7
Net cash used by investing activities	—	(113)	(487)	51	(549)
Cash flows from financing activities:					
Debt repaid	—	(310)	(1)	(50)	(361)
Dividends paid	(347)	—	(689)	689	(347)
Issuance of common stock	41	—	—	—	41
Proceeds from noncontrolling interest	—	—	7	—	7
Intercompany activity, net	(803)	378	425	—	—
Other, net	(83)	74	53	—	44
Net cash provided (used) by financing activities	(1,192)	142	(205)	639	(616)
Net decrease in cash, cash equivalents and restricted cash	(683)	(5)	(48)	—	(736)
Cash, cash equivalents and restricted cash at beginning of period	1,109	79	325	—	1,513
Cash, cash equivalents and restricted cash at end of period	$ 426	$ 74	$ 277	$ —	$ 777

Condensed Consolidating Statement of Cash Flows
For the 39 Weeks Ended October 28, 2017
(millions)

	Parent	Subsidiary Issuer	Other Subsidiaries	Consolidating Adjustments	Consolidated
Cash flows from operating activities:					
Net income (loss)	$ 219	$ (385)	$ 569	$ (191)	$ 212
Equity in loss (earnings) of subsidiaries	(217)	26	—	191	—
Restructuring and other costs	—	1	32	—	33
Settlement charges	—	24	49	—	73
Dividends received from subsidiaries	571	—	—	(571)	—
Depreciation and amortization	—	265	476	—	741
Gains on sale of real estate	—	(116)	(60)	—	(176)
Changes in assets, liabilities and other items not separately identified	(44)	167	(607)	—	(484)
Net cash provided (used) by operating activities	529	(18)	459	(571)	399
Cash flows from investing activities:					
Disposition (purchase) of property and equipment and capitalized software, net	—	30	(368)	—	(338)
Other, net	—	2	7	—	9
Net cash provided (used) by investing activities	—	32	(361)	—	(329)
Cash flows from financing activities:					
Debt repaid	—	(563)	(1)	—	(564)
Dividends paid	(346)	—	(571)	571	(346)
Issuance of common stock, net of common stock acquired	2	—	—	—	2
Proceeds from noncontrolling interest	—	—	12	—	12
Intercompany activity, net	(1,016)	589	427	—	—
Other, net	9	(32)	103	—	80
Net cash used by financing activities	(1,351)	(6)	(30)	571	(816)
Net increase (decrease) in cash, cash equivalents and restricted cash	(822)	8	68	—	(746)
Cash, cash equivalents and restricted cash at beginning of period	938	81	315	—	1,334
Cash, cash equivalents and restricted cash at end of period	$ 116	$ 89	$ 383	$ —	$ 588

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 2018" and "third quarter of 2017" are to the Company's 13-week fiscal periods ended November 3, 2018 and October 28, 2017, respectively, and all references to "2018" and "2017" are to the Company's 39-week fiscal periods ended November 3, 2018 and October 28, 2017, 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 2017 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 2017 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 29 to 31.

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 kids), cosmetics, home furnishings and other consumer goods. The Company operates approximately 870 stores in 44 states, the District of Columbia, Guam and Puerto Rico. As of November 3, 2018, the Company's operations were conducted through Macy's, Bloomingdale's, Bloomingdale's The Outlet, Macy's Backstage, bluemercury and STORY.

Bloomingdale's in Dubai, United Arab Emirates and Al Zahra, Kuwait are operated under a license agreement with Al Tayer Insignia, a company of Al Tayer Group, LLC.

Quarter Highlights

During the third quarter of 2018, the Company completed foundational work for the 2018 five key strategic initiatives of the North Star strategy. These initiatives continued to contribute to the results of 2018. Specifically:

- The Macy's Star Rewards loyalty program marked its one-year anniversary and continued to offer improved benefits to its members, including exclusive experiences for the program's platinum loyalty members.
- Completing the fiscal 2018 expansion of Backstage, Macy's mall-based off-price business, the Company opened 56 new locations within existing Macy’s stores during the third quarter of 2018. This expansion brings the total Backstage locations to 173 (seven freestanding and 166 inside Macy's stores) as of November 3, 2018.
- The Company's vendor direct program (i.e., merchandise purchased from the Company's websites and digital applications and shipped directly to customers from the respective vendor) continued its expansion during the third quarter of 2018, with increased assortment and the addition of new categories and brands.
- The Company completed the enhancement of customer options for pick-up, delivery and checkout at Macy's, including the expansion of Buy Online Ship to Store and construction of At Your Service stations in all stores.
- The Growth50 locations contributed to the strong operating results for the third quarter of 2018. As a result of the performance of the Growth50 locations, the Company will expand the initiative to another 100 stores in fiscal 2019.

The Company recently announced a retail store strategy for Macy's that focuses on identifying a scalable investment strategy for all of the brand's stores, improving the customer's experience and growing total sales profitably. This strategy includes categorization of the Company's Macy's stores into three groups:

- Flagship stores include Herald Square and 10 other regional flagship stores which serve as premier retail destinations within their respective regions.
- Magnet stores include the Growth50 stores, which as noted previously will be expanded to another 100 stores in fiscal 2019. These stores are retail destinations within major markets that offer an expanded selection of merchandise.
- Neighborhood stores are smaller, profitable locations that are visited primarily for convenience and on-line order fulfillment. The Company is testing, and will continue to test in fiscal 2019, different investment models aimed at increasing shopping ease and convenience. Once the right model is determined, it will be rolled-out to the remaining neighborhood stores.

Further building upon its acquisition of STORY and investment in b8ta in the first half of 2018, the Company continued its enhancement of in-store experiences and personalization through advanced technology and partnerships. During the third quarter of 2018, the Company completed the roll-out of virtual reality furniture at 69 stores and began offering augmented reality beauty experiences in certain stores. Additionally, the Company announced the expansion of the number of e-commerce brands that will be available at The Market @ Macy's during the fourth quarter of 2018.

In addition to the above, the Company has continued to grow its luxury beauty products and spa retailer, bluemercury, by opening additional freestanding bluemercury stores in urban and suburban markets, and adding bluemercury products and boutiques to Macy's stores. Eight new freestanding bluemercury locations were opened in the third quarter of 2018, and four additional freestanding locations are expected to open later in the fiscal year. As of November 3, 2018, the Company is operating 180 bluemercury locations (160 freestanding and 20 inside Macy's stores).

Results of Operations

Comparison of the Third Quarter of 2018 and the Third Quarter of 2017

	Third Quarter of 2018		Third Quarter of 2017	
	Amount	% to Net Sales	Amount	% to Net Sales
	(dollars in millions, except per share figures)			
Net sales	$ 5,404		$ 5,281	
Credit card revenues, net	185	3.4 %	145	2.7 %
Cost of sales	(3,226)	(59.7) %	(3,152)	(59.7) %
Selling, general and administrative expenses	(2,255)	(41.7) %	(2,188)	(41.4) %
Gains on sale of real estate	42	0.8 %	65	1.2 %
Restructuring and other costs	(3)	(0.1) %	(33)	(0.6) %
Operating income	147	2.7 %	118	2.2 %
Benefit plan income, net	9		15	
Settlement charges	(23)		(22)	
Interest expense, net	(59)		(74)	
Income before income taxes	74		37	
Federal, state and local income tax expense	(12)		(10)	
Net income	62		27	
Net loss attributable to noncontrolling interest	—		3	
Net income attributable to Macy's, Inc. shareholders	$ 62	1.1 %	$ 30	0.6 %
Diluted earnings per share attributable to Macy's, Inc. shareholders	$ 0.20		$ 0.10	
Supplemental Financial Measure				
Gross margin (a)	$ 2,178	40.3 %	$ 2,129	40.3 %
Supplemental Non-GAAP Financial Measure				
Diluted earnings per share attributable to Macy's, Inc. shareholders, excluding the impact of certain items	$ 0.27		$ 0.21	

(a) Gross margin is defined as net sales less cost of sales.

Net Sales and Comparable Sales

Net sales for the third quarter of 2018 increased $123 million or 2.3% compared to the third quarter of 2017. Comparable sales on an owned basis for the third quarter of 2018 increased 3.1% compared to the third quarter of 2017. On an owned plus licensed basis comparable sales increased 3.3% during the third quarter of 2018.

The Company's digital business continued its strong growth with double-digit gains in the third quarter of 2018 and all three brands, Macy's, Bloomingdale's and bluemercury, performed well. Sales during the third quarter of 2018 were the strongest in men's and kids, fine jewelry, fragrances, active, women's shoes and coats, while sales in women's sportswear and fashion watches were not as strong.

Credit Card Revenues, Net

Credit card revenues, net were $185 million in the third quarter of 2018, an increase of $40 million compared to $145 million recognized in the third quarter of 2017. Increased proprietary card usage driven by the enhanced Macy's Star Rewards loyalty program and higher consumer credit balances drove the favorable results. Proprietary card penetration increased to 48.4% in the third quarter of 2018 from 47.4% in the third quarter of 2017.

Cost of Sales

Cost of sales increased by $74 million compared to the third quarter of 2017, remaining flat as a percent to net sales with the third quarter of 2017 at 59.7%. The increase in cost of sales dollars was driven by higher sales.

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses for the third quarter of 2018 increased $67 million from the third quarter of 2017. The SG&A rate as a percent to net sales of 41.7% was 30 basis points higher in the third quarter of 2018, as compared to the third quarter of 2017. This increase in SG&A expenses was driven primarily by investments in the expansion of Backstage as well as the Company's new employee incentive plan.

Gains on Sale of Real Estate

The third quarter of 2018 included asset sale gains of $42 million, including $23 million related to the continued recognition of the deferred gain from the Macy's Brooklyn transaction closed in fiscal 2015. This compares to $65 million of asset sale gains recognized in the third quarter of 2017, including approximately $40 million related to the Macy's downtown Seattle location and $22 million related to the Macy's Brooklyn transaction.

Restructuring and Other Costs

The third quarters of 2018 and 2017 included $3 million and $33 million, respectively, of restructuring and other costs related to severance activity and other human resource costs associated with organizational restructuring.

Benefit Plan Income, Net

The third quarters of 2018 and 2017 included $9 million and $15 million, respectively, of non-cash net benefit plan income relating to the Company's defined benefit plans. This income includes the net of: interest cost, expected return on plan assets and amortization of prior service costs or credits and actuarial gains and losses.

Settlement Charges

The third quarters of 2018 and 2017 included $23 million and $22 million, respectively, of non-cash settlement charges relating to the Company's defined benefit plans. These charges relate to the pro-rata recognition of net actuarial losses and are the result of an increase in lump sum distributions primarily associated with retiree distribution elections and restructuring activity.

Net Interest Expense

Net interest expense for the third quarter of 2018 decreased $15 million from the third quarter of 2017 due to a reduction in the Company's debt resulting from tender offer repurchases in fiscal 2017 and open market repurchases in fiscal 2018.

Effective Tax Rate

The Company's effective tax rate of 16.2% for the third quarter of 2018 and 27.0% for the third quarter of 2017 differ from the federal income tax statutory rate of 21% and 35%, respectively, because of the resolution of certain tax settlements and tax examinations. In addition to these items, the effective tax rate for the third quarter of 2018 was lower than the effective tax rate for the third quarter of 2017 due to the enactment of U.S. federal tax reform in December 2017, which lowered the Company's federal income tax statutory rate as outlined above.

Net Income Attributable to Macy's, Inc. Shareholders

Net income attributable to Macy's, Inc. shareholders for the third quarter of 2018 increased $32 million compared to the third quarter of 2017. The third quarter of 2018 included higher sales, net credit card revenue and gross margin, as well as lower interest expense and a lower effective tax rate than the third quarter of 2017.

Diluted Earnings Per Share Attributable to Macy's, Inc. Shareholders

Diluted earnings per share for the third quarter of 2018 increased $0.10 compared to the third quarter of 2017, reflecting higher net income.

Comparison of the 39 Weeks Ended November 3, 2018 and October 28, 2017

	2018		2017	
	Amount	% to Net Sales	Amount	% to Net Sales
	(dollars in millions, except per share figures)			
Net sales	$ 16,516		$ 16,267	
Credit card revenues, net	528	3.2 %	473	2.9 %
Cost of sales	(9,927)	(60.1) %	(9,858)	(60.6) %
Selling, general and administrative expenses	(6,501)	(39.4) %	(6,406)	(39.4) %
Gains on sale of real estate	111	0.7 %	176	1.1 %
Impairment, restructuring and other costs	(39)	(0.2) %	(33)	(0.2) %
Operating income	688	4.2 %	619	3.8 %
Benefit plan income, net	31		42	
Settlement charges	(73)		(73)	
Interest expense, net	(187)		(237)	
Losses on the early retirement of debt	(5)		(1)	
Income before income taxes	454		350	
Federal, state and local income tax expense	(96)		(138)	
Net income	358		212	
Net loss attributable to noncontrolling interest	10		7	
Net income attributable to Macy's, Inc. shareholders	$ 368	2.2 %	$ 219	1.3 %
Diluted earnings per share attributable to Macy's, Inc. shareholders	$ 1.18		$ 0.71	
Supplemental Financial Measures				
Gross margin (a)	$ 6,589	39.9 %	$ 6,409	39.4 %
Supplemental Non-GAAP Financial Measures				
Diluted earnings per share attributable to Macy's, Inc. shareholders, excluding the impact of certain items	$ 1.45		$ 0.93	

(a) Gross margin is defined as net sales less cost of sales.

Net Sales and Comparable Sales

Net sales for 2018 increased $249 million or 1.5% compared to 2017. Comparable sales on an owned basis during 2018 increased 2.4% compared to 2017. On an owned plus licensed basis comparable sales increased 2.7% during 2018. Sales during 2018 benefited from the Company's implementation of the five key strategic initiatives of the North Star strategy, strong consumer spending and improved inventory management. The Company's digital business continued its strong growth with double-digit gains in 2018. Sales during 2018 were the strongest in fine jewelry, fragrances, men's, women's shoes, dresses, kids, and active. Sales were not as strong in women's sportswear and fashion watches during 2018.

Credit Card Revenues, Net

Credit card revenues, net were $528 million in 2018, an increase of $55 million compared to $473 million recognized in 2017. Increased proprietary card usage driven by the enhanced Macy's Star Rewards loyalty program and higher consumer credit balances drove the favorable results. Proprietary card penetration increased to 46.8% in 2018 from 46.3% in 2017.

Cost of Sales

The cost of sales rate as a percent to net sales for 2018 decreased to 60.1% compared to 60.6% for 2017, while cost of sales increased $69 million compared to 2017 due to improved sales. The decrease in the cost of sales rate as a percent to net sales was primarily due to the Company's improved inventory management, which resulted in lower markdowns.

Selling, General and Administrative Expenses

SG&A expenses for 2018 increased $95 million from 2017. The SG&A rate as a percent to net sales of 39.4% was flat in 2018 as compared to 2017. The SG&A rate was impacted by the savings of the Company's prior restructuring activity, offset by the expansion of Backstage as well as the Company's new employee incentive plan.

Gains on Sale of Real Estate

2018 included asset sale gains of $111 million, including $58 million related to the continued recognition of the deferred gain from the Macy's Brooklyn transaction closed in fiscal 2015. This compares to $176 million of asset sale gains recognized in 2017, including $47 million related to the Macy's downtown Minneapolis location, $49 million related to the Macy's Brooklyn transaction, and $40 million related to the Macy's downtown Seattle location.

Impairment, Restructuring and Other Costs

2018 and 2017 included $39 million and $33 million, respectively, of costs primarily associated with the wind-down of Macy's China Limited, as well as severance activity and other human resource costs related to organizational restructuring.

Benefit Plan Income, Net

2018 and 2017 included $31 million and $42 million, respectively, of non-cash net benefit plan income relating to the Company's defined benefit plans. This income includes the net of: interest cost, expected return on plan assets, amortization of prior service cost or credits and actuarial gains and losses.

Settlement Charges

2018 and 2017 each included $73 million of non-cash settlement charges relating to the Company's defined benefit plans. These charges relate to the pro-rata recognition of net actuarial losses and are the result of an increase in lump sum distributions primarily associated with retiree distribution elections and restructuring activity.

Net Interest Expense

Net interest expense for 2018 decreased $50 million from 2017 due to a reduction in the Company's debt as a result of the activity previously discussed within the quarterly results of operations as well as open market repurchases during fiscal 2017.

Losses on Early Retirement of Debt

In 2018, the Company repurchased approximately $344 million face value of senior notes and debentures. The debt repurchases were made in the open market for a total cost of approximately $354 million, including expenses and other fees related to the transactions. As a result of the debt repurchases, the Company recognized $5 million in expenses and fees net of the write-off of unamortized debt premiums.

In 2017, the Company repurchased approximately $247 million face value of senior notes and debentures. The debt repurchases were made in the open market for a total cost of approximately $257 million, including expenses and other fees related to the transactions. As a result of the debt repurchases, the Company recognized $1 million in expenses and fees net of the write-off of unamortized debt premiums in 2017.

Effective Tax Rate

The Company's effective tax rate of 21.1% for 2018 and 39.4% for 2017 include the effects of certain tax settlements and tax examinations as well as the impact of the U.S. federal tax reform in December 2017, which lowered the Company's federal income tax statutory rate from 35% to 21%. Further, 2017 included the recognition of approximately $12 million, respectively, of net tax deficiencies associated with share-based payment awards.

Net Income Attributable to Macy's, Inc. Shareholders

Net income attributable to Macy's, Inc. shareholders for 2018 increased $149 million compared to 2017. The increase in 2018 was due to higher sales, net credit card revenue and gross margin, as well as lower interest expense and a lower effective tax rate. These increases were offset by lower gains associated with the sale of real estate as well as higher SG&A expenses in 2018 as compared to 2017.

Diluted Earnings Per Share Attributable to Macy's, Inc. Shareholders

Diluted earnings per share for 2018 increased $0.47 compared to 2017, reflecting higher net income.

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 2018 was $429 million, compared to $399 million provided in 2017. Operating cash flows in 2018 were driven by the Company's higher net income as discussed within the results of operations and due to the Company's debt repurchase activity as well as lower income tax payments.

Investing Activities

Net cash used by investing activities was $549 million in 2018, compared to net cash used by investing activities of $329 million in 2017. The increase in 2018 was driven by the Company's investments in its five key strategic initiatives of the North Star strategy. Offsetting this outflow, the Company received cash of $121 million from execution of real estate transactions in 2018, including the sale of the upper seven floors of the Macy's State Street store in Chicago. In 2017, the Company received $212 million of real estate sale proceeds that included $59 million from the sale of the Macy's downtown Minneapolis location.

Financing Activities

Net cash used by the Company for financing activities was $616 million for 2018, including payment of $347 million of cash dividends. This outflow was partially offset by $41 million of proceeds received from the issuance of common stock, primarily due to an increase in stock option exercise activity. During 2018, the Company repurchased approximately $344 million face value of senior notes and debentures. The debt repurchases were made in the open market for a total cost of approximately $354 million, including expenses and other fees related to the transactions.

Net cash used by the Company for financing activities was $816 million for 2017, including debt payments of $564 million and payment of $346 million of cash dividends. In 2017, the Company repurchased approximately $247 million face value of senior notes and debentures. The debt repurchases were made in the open market for a total cash cost of $257 million, including expenses and other fees related to the transactions. Additionally, during the second quarter of 2017, the Company repaid at maturity $300 million of 7.45% senior debentures due July 2017.

On November 28, 2018, the Company commenced a tender offer to purchase up to $600 million in aggregate principal amount of certain senior unsecured notes and debentures, with stated interest rates ranging from 2.875% to 8.75% and maturities ranging from fiscal years 2023 to 2042. The tender offer expires on December 26, 2018, with an early tender date on December 11, 2018.

The Company is party to a credit agreement with certain financial institutions 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. The agreement is set to expire May 6, 2021. As of November 3, 2018, the Company did not have any borrowings or letters of credit outstanding under its credit facility.

The Company is party to a $1,500 million unsecured commercial paper program. The Company may issue and sell commercial paper in an aggregate amount outstanding at any particular time not to exceed its then-current combined borrowing availability under its bank credit agreement. As of November 3, 2018, the Company did not have any borrowings outstanding under its commercial paper program.

As of November 3, 2018, the Company was required under its credit agreement 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 under the credit agreement. The Company's interest coverage ratio for the third quarter of 2018 was 10.88 and its leverage ratio at November 3, 2018 was 1.88, in each case as calculated in accordance with the credit agreement. As of November 3, 2018, the Company was in compliance with the ratios.

On October 26, 2018, the Company announced that the Board of Directors declared a quarterly dividend of 37.75 cents per share on its common stock, payable January 2, 2019, to Macy's shareholders of record at the close of business on December 14, 2018.

Capital Resources

Management believes that, with respect to the Company's current operations, its 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.

Outlook and Recent Developments

On November 14, 2018, the Company issued a press release to report preliminary earnings for its third quarter and updated sales and earnings guidance for fiscal 2018 as follows:

- Total net sales are expected to range from up 0.3% to up 0.7% compared to fiscal 2017.
- Annual comparable sales on an owned plus licensed basis are expected to increase between 2.3% and 2.5%. Annual comparable sales on an owned basis are expected to be 20-30 basis points below comparable sales on an owned plus licensed basis.
- Net credit card revenue is expected to be approximately $740 million to $755 million.
- Effective tax rate is expected to be 22.75%.
- Adjusted earnings per diluted share are expected to be $4.10 to $4.30. This reflects an increase of 15 cents compared to the prior revised guidance provided at the end of the Company's second quarter of 2018.

All other annual guidance including gross margin, SG&A, asset sale gains, interest expense, depreciation and amortization, and capital expenditures are unchanged from the guidance previously provided by the Company.

Total net sales guidance is provided on a 52-week basis in 2018 compared to a 53-week basis in 2017. Comparable sales guidance is provided on a 52-week basis in both 2018 and 2017. The above fiscal 2018 guidance and fiscal 2017 comparable amounts reflect the new accounting standards related to revenue recognition and retirement benefits.

Important Information Regarding Non-GAAP Financial Measures

The Company reports its financial results in accordance with U.S. 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 supplemental changes in comparable sales on an owned plus licensed basis, which includes adjusting for growth in comparable sales of departments licensed to third parties, 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. In addition, management believes that excluding certain items from net income and diluted earnings per share attributable to Macy's, Inc. shareholders that are no longer associated with the Company’s core operations and that may vary substantially in frequency and magnitude period-to-period provides useful supplemental measures that assist in evaluating the Company's ability to generate earnings and leverage sales and to more readily compare these metrics between past and future periods.

The reconciliation of the forward-looking non-GAAP financial measure of changes in comparable sales on an owned plus licensed basis to GAAP comparable sales (i.e., on an owned basis) is in the same manner as illustrated below, except that the impact of growth in comparable sales of departments licensed to third parties is the only reconciling item. In addition, the Company does not provide the most directly comparable forward-looking GAAP measure of net income and diluted earnings per share attributable to Macy’s, Inc. shareholders excluding certain items because the timing and amount of excluded items are unreasonably difficult to fully and accurately estimate.

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 non-GAAP financial measures may be significant items that could impact the Company's financial position, results of operations or cash flows and should therefore be considered in assessing the Company's actual and future 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.

Change in Comparable Sales

The following is a tabular reconciliation of the non-GAAP financial measure of changes in comparable sales on an owned plus licensed basis, to GAAP comparable sales (i.e. on an owned basis), which the Company believes to be the most directly comparable GAAP financial measure.

	Third Quarter of 2018	2018
Increase in comparable sales on an owned basis (note 1)	3.1%	2.4%
Impact of growth in comparable sales of departments licensed to third parties (note 2)	0.2%	0.3%
Increase in comparable sales on an owned plus licensed basis	3.3%	2.7%

Notes:

(1) Represents the period-to-period percentage change in net sales from stores in operation throughout the year presented and the immediately preceding year and all online sales, excluding commissions from departments licensed to third parties. Stores impacted by a natural disaster or undergoing significant expansion or shrinkage remain in the comparable sales calculation unless the store, or material portion of the store, is closed for a significant period of time. Definitions and calculations of comparable sales differ among companies in the retail industry.

(2) Represents the impact of including the sales of departments licensed to third parties occurring in stores in operation throughout the year presented and the immediately preceding year and all online sales in the calculation of comparable sales. The Company licenses third parties to operate certain departments in its stores and online and receives commissions from these third parties based on a percentage of their net sales. In its financial statements prepared in conformity with GAAP, the Company includes these commissions (rather than the sales of the departments licensed to third parties) in its net sales. The Company does not, however, include any amounts with respect to licensed department sales (or any commissions earned on such sales) in its comparable sales in accordance with GAAP (i.e., on an owned basis). The Company believes that the amounts of commissions earned on sales of departments licensed to third parties are not material to its results of operations for the periods presented.

Adjusted Net Income and Adjusted Diluted Earnings Per Share Attributable to Macy's, Inc. Shareholders

The following is a tabular reconciliation of the non-GAAP financial measure of net income and diluted earnings per share attributable to Macy's, Inc. shareholders, excluding certain items identified below, to GAAP net income and diluted earnings per share attributable to Macy's, Inc., shareholders, which the Company believes to be the most directly comparable GAAP measures.

	Third Quarter of 2018		Third Quarter of 2017	
	Net Income Attributable to Macy's, Inc. Shareholders	Diluted Earnings Per Share	Net Income Attributable to Macy's, Inc. Shareholders	Diluted Earnings Per Share
As reported	$ 62	$ 0.20	$ 30	$ 0.10
Restructuring and other costs	3	0.01	33	0.11
Settlement charges	23	0.08	22	0.07
Income tax impact of certain items identified above	(5)	(0.02)	(20)	(0.07)
As adjusted	$ 83	$ 0.27	$ 65	$ 0.21

	2018		2017	
	Net Income Attributable to Macy's, Inc. Shareholders	Diluted Earnings Per Share	Net Income Attributable to Macy's, Inc. Shareholders	Diluted Earnings Per Share
As reported	$ 368	$ 1.18	$ 219	$ 0.71
Impairment, restructuring and other costs (Note 1)	31	0.10	33	0.11
Settlement charges	73	0.23	73	0.24
Losses on early retirement of debt (Note 2)	5	0.02	1	—
Income tax impact of certain items identified above	(26)	(0.08)	(40)	(0.13)
As adjusted	$ 451	$ 1.45	$ 286	$ 0.93

Notes:

(1) For 2018 the above pre-tax adjustment excludes impairment, restructuring and other costs attributable to the noncontrolling interest shareholder of $8 million.

(2) The impact during 2017 represents a value less than $0.01 per diluted share attributable to Macy's, Inc. shareholders.

New Pronouncements

Accounting Pronouncements Recently Adopted

See Part I, Item 1, “Financial Statements — Note 1 — Summary of Significant Accounting Policies.”

Accounting Pronouncements Not Yet Adopted

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which requires lessees to recognize substantially all leases on-balance sheet and disclose key information about leasing arrangements. The new standard establishes a right of use ("ROU") model that requires a lessee to recognize a ROU asset and lease liability on the balance sheet for all leases with a term longer than 12 months. Leases will be classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the income statement. The new standard is effective for the Company on February 3, 2019 and will be adopted utilizing a modified retrospective approach that allows for transition in the period of adoption, with certain practical expedients available.

While the Company is continuing to assess all impacts of the standard, total assets and liabilities are expected to increase by $2.0 billion to $2.5 billion as of the date of adoption. The standard is not expected to materially affect consolidated net income, which is expected to be impacted by changes to the timing of recognition of certain real estate asset sale gains due to application of the new sale-leaseback guidance and ASU No. 2017-05, Other Income - Gains and Losses from the Derecognition of NonFinancial Assets (Subtopic 610-20). These estimates are based on the Company's current lease portfolio and may change if the lease portfolio changes and as the Company continues to evaluate the new standard. A significant change in leasing activity between the date of this report and adoption is not expected. The Company's estimates will be updated each quarter as changes occur.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

There have been no material changes to the Company’s market risk as described in the Company's 2017 10-K. For a discussion of the Company’s exposure to market risk, refer to the Company’s market risk disclosures set forth in Part II, Item 7A, “Quantitative and Qualitative Disclosures About Market Risk” of the 2017 10-K.

Item 4. Controls and Procedures.

The Company's Chief Executive Officer and Chief Financial Officer have carried out, as of November 3, 2018, 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 as of November 3, 2018 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 Securities and Exchange Commission (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.

From time to time major organizational restructuring and realignment occurs for which the Company reviews its internal control over financial reporting. As a result of this review, there were no changes in the Company's internal control 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.

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 2017 10-K.

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 2018.

	Total Number of Shares Purchased	Average Price Paid per Share ($)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Dollar Value of Shares that may yet be Purchased Under the Plans or Programs (1)($)
	(thousands)		(thousands)	(millions)
August 5, 2018 – September 1, 2018	—	—	—	1,716
September 2, 2018 – October 6, 2018	—	—	—	1,716
October 7, 2018 – November 3, 2018	—	—	—	1,716
	—	—	—	

(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 $18 billion of Common Stock as of November 3, 2018. All authorizations are cumulative and do not have an expiration date. As of November 3, 2018, $1,716 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 5. Other Information.

Forward-Looking Statements

This report and other reports, statements and information previously or subsequently filed by the Company with 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, catalogs and television;
- the Company's ability to remain competitive and relevant as consumers' shopping behaviors migrate to other shopping channels and to maintain its brand and reputation;
- 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, including planned store closings, and changes in expected synergies, cost savings and non-recurring charges;
- the success of the Company's operational decisions (e.g., product curation, marketing programs) and strategic initiatives;
- 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;
- the cost of employee benefits as well as attracting and retaining quality employees;
- transactions involving our real estate portfolio;
- the seasonal nature of the Company's business;
- 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;
- 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; and
- duties, taxes, other charges and quotas on imports.

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" 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.

Item 6. Exhibits.

31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)
32.1	Certification by Chief Executive Officer under Section 906 of the Sarbanes-Oxley Act
32.2	Certification by Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act
101	The following financial statements from Macy's, Inc.'s Quarterly Report on Form 10-Q for the quarter ended November 3, 2018, filed on December 7, 2018, 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.

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/ ELISA D. GARCIA

Elisa D. Garcia
Chief Legal Officer and Secretary

By: /s/ FELICIA WILLIAMS

Felicia Williams
Executive Vice President, Controller and Enterprise Risk Officer
(Principal Accounting Officer)

Date: December 7, 2018

Exhibit 31.1

CERTIFICATION

I, Jeff Gennette, certify that:

1 I have reviewed this quarterly report on Form 10-Q of Macy's, Inc.;

2 Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3 Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4 The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5 The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

December 7, 2018

/s/ Jeff Gennette
Jeff Gennette
Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Paula A. Price, certify that:

1 I have reviewed this quarterly report on Form 10-Q of Macy's, Inc.;

2 Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3 Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4 The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5 The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

December 7, 2018

/s/ Paula A. Price
Paula A. Price
Chief Financial Officer

Exhibit 32.1

CERTIFICATION UNDER SECTION 906 OF THE SARBANES-OXLEY ACT

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, in connection with the filing of the Form 10-Q of Macy's, Inc. (the "Company") for the fiscal quarter ended November 3, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned officer of the Company certifies that, to his knowledge:

1 The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2 The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods expressed in the Report.

Dated: December 7, 2018

/s/ Jeff Gennette
Name: Jeff Gennette
Title: Chief Executive Officer

Exhibit 32.2

CERTIFICATION UNDER SECTION 906 OF THE SARBANES-OXLEY ACT

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, in connection with the filing of the Form 10-Q of Macy's, Inc. (the "Company") for the fiscal quarter ended November 3, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned officer of the Company certifies that, to his knowledge:

1 The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2 The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods expressed in the Report.

Dated: December 7, 2018

/s/ Paula A. Price
Name: Paula A. Price
Title: Chief Financial Officer