**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**

# FORM 10-Q

(Mark One)

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

For the quarterly period ended November 2, 2013
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: 1-15274

**J. C. PENNEY COMPANY, INC.**

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Delaware** | **26-0037077** |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| **6501 Legacy Drive, Plano, Texas** | **75024 - 3698** |
| (Address of principal executive offices) | (Zip Code) |

(Registrant's telephone number, including area code)
**(972) 431-1000**

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

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

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

| | | | |
|---|---|---|---|
| Large accelerated filer ☒ | Accelerated filer ☐ | Non-accelerated filer ☐<br>(Do not check if a smaller reporting company) | Smaller reporting company ☐ |

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. 304,622,962 shares of Common Stock of 50 cents par value, as of December 2, 2013.

**J. C. PENNEY COMPANY, INC.**

**FORM 10-Q**

**For the Quarterly Period Ended November 2, 2013**

**INDEX**

## Part I. Financial Information

### Item 1. Unaudited Interim Consolidated Financial Statements

### J. C. PENNEY COMPANY, INC.

### CONSOLIDATED STATEMENTS OF OPERATIONS
**(Unaudited)**

| (In millions, except per share data) | Three Months Ended November 2, 2013 | Three Months Ended October 27, 2012 | Nine Months Ended November 2, 2013 | Nine Months Ended October 27, 2012 |
|---|---|---|---|---|
| Total net sales | $ 2,779 | $ 2,927 | $ 8,077 | $ 9,101 |
| Cost of goods sold | 1,960 | 1,975 | 5,659 | 5,959 |
| Gross margin | 819 | 952 | 2,418 | 3,142 |
| Operating expenses/(income): | | | | |
| Selling, general and administrative (SG&A) | 1,006 | 1,087 | 3,110 | 3,297 |
| Pension | 34 | 51 | 102 | 167 |
| Depreciation and amortization | 161 | 133 | 440 | 386 |
| Real estate and other, net | (27) | (197) | (117) | (412) |
| Restructuring and management transition | 46 | 34 | 165 | 269 |
| Total operating expenses | 1,220 | 1,108 | 3,700 | 3,707 |
| Operating income/(loss) | (401) | (156) | (1,282) | (565) |
| Loss on extinguishment of debt | — | — | 114 | — |
| Net interest expense | 99 | 55 | 255 | 169 |
| Income/(loss) before income taxes | (500) | (211) | (1,651) | (734) |
| Income tax expense/(benefit) | (11) | (88) | (228) | (301) |
| Net income/(loss) | $ (489) | $ (123) | $ (1,423) | $ (433) |
| Earnings/(loss) per share: | | | | |
| Basic | $ (1.94) | $ (0.56) | $ (6.17) | $ (1.98) |
| Diluted | $ (1.94) | $ (0.56) | $ (6.17) | $ (1.98) |
| Weighted average shares – basic | 251.8 | 219.4 | 230.8 | 219.1 |
| Weighted average shares – diluted | 251.8 | 219.4 | 230.8 | 219.1 |

*See the accompanying notes to the unaudited Interim Consolidated Financial Statements.*

**J. C. PENNEY COMPANY, INC.**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)**
**(Unaudited)**

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| *($ in millions)* | November 2, 2013 | October 27, 2012 | November 2, 2013 | October 27, 2012 |
| Net income/(loss) | $ (489) | $ (123) | $ (1,423) | $ (433) |
| Other comprehensive income/(loss), net of tax: | | | | |
| **Real estate investment trusts (REITs)** | | | | |
| Unrealized gain/(loss) | — | 1 | — | 34 |
| Reclassification adjustment for realized (gain)/loss | — | (10) | — | (184) |
| **Retirement benefit plans** | | | | |
| Net actuarial gain/(loss) arising during the period | — | (75) | — | (75) |
| Reclassification of net prior service (credit)/cost from a curtailment | — | (3) | — | (3) |
| Reclassification for amortization of net actuarial (gain)/loss | 26 | 37 | 81 | 114 |
| Reclassification for amortization of prior service (credit)/cost | — | (2) | (1) | (6) |
| Total other comprehensive income/(loss), net of tax | 26 | (52) | 80 | (120) |
| Total comprehensive income/(loss), net of tax | $ (463) | $ (175) | $ (1,343) | $ (553) |

*See the accompanying notes to the unaudited Interim Consolidated Financial Statements.*

## J. C. PENNEY COMPANY, INC.

## CONSOLIDATED BALANCE SHEETS

| *(In millions, except per share data)* | November 2, 2013 (Unaudited) | October 27, 2012 (Unaudited) | February 2, 2013 |
|---|---|---|---|
| **Assets** | | | |
| Current assets: | | | |
| Cash in banks and in transit | $ 151 | $ 141 | $ 121 |
| Cash short-term investments | 1,076 | 384 | 809 |
| Cash and cash equivalents | 1,227 | 525 | 930 |
| Merchandise inventory | 3,747 | 3,362 | 2,341 |
| Income tax receivable | — | 69 | 57 |
| Deferred taxes | 119 | 409 | 106 |
| Prepaid expenses and other | 249 | 265 | 249 |
| Total current assets | 5,342 | 4,630 | 3,683 |
| Property and equipment (net of accumulated depreciation of $3,178, $3,070 and $2,880) | 5,753 | 5,493 | 5,353 |
| Prepaid pension | 36 | — | — |
| Other assets | 744 | 767 | 745 |
| **Total Assets** | $ 11,875 | $ 10,890 | $ 9,781 |
| **Liabilities and Stockholders' Equity** | | | |
| Current liabilities: | | | |
| Merchandise accounts payable | $ 1,409 | $ 1,408 | $ 1,162 |
| Other accounts payable and accrued expenses | 1,269 | 1,344 | 1,380 |
| Short-term borrowings | 650 | — | — |
| Current portion of capital leases and note payable | 27 | 22 | 26 |
| Current maturities of long-term debt | 23 | — | — |
| Total current liabilities | 3,378 | 2,774 | 2,568 |
| Long-term capital leases and note payable | 67 | 75 | 88 |
| Long-term debt | 4,845 | 2,868 | 2,868 |
| Deferred taxes | 250 | 786 | 388 |
| Other liabilities | 688 | 885 | 698 |
| **Total Liabilities** | 9,228 | 7,388 | 6,610 |
| **Stockholders' Equity** | | | |
| Common stock[(1)] | 153 | 110 | 110 |
| Additional paid-in capital | 4,575 | 3,789 | 3,799 |
| Reinvested earnings/(accumulated deficit) | (1,043) | 932 | 380 |
| Accumulated other comprehensive income/(loss) | (1,038) | (1,329) | (1,118) |
| **Total Stockholders' Equity** | 2,647 | 3,502 | 3,171 |
| **Total Liabilities and Stockholders' Equity** | $ 11,875 | $ 10,890 | $ 9,781 |

*(1) 1,250 million shares of common stock are authorized with a par value of $0.50 per share. The total shares issued and outstanding were 304.6 million, 219.2 million and 219.3 million as of November 2, 2013, October 27, 2012 and February 2, 2013, respectively.*

*See the accompanying notes to the unaudited Interim Consolidated Financial Statements.*

J. C. PENNEY COMPANY, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

| ($ in millions) | Three Months Ended November 2, 2013 | Three Months Ended October 27, 2012 | Nine Months Ended November 2, 2013 | Nine Months Ended October 27, 2012 |
|---|---|---|---|---|
| **Cash flows from operating activities** | | | | |
| Net income/(loss) | $ (489) | $ (123) | $ (1,423) | $ (433) |
| Adjustments to reconcile net income/(loss) to net cash provided by/(used in) operating activities: | | | | |
| Restructuring and management transition | 48 | 12 | 109 | 102 |
| Asset impairments and other charges | 3 | 6 | 12 | 10 |
| Net gain on sale or redemption of non-operating assets | (24) | (197) | (86) | (397) |
| Net gain on sale of operating assets | — | — | (18) | — |
| Loss on extinguishment of debt | — | — | 114 | — |
| Depreciation and amortization | 161 | 133 | 440 | 386 |
| Benefit plans | 16 | 31 | 57 | 110 |
| Stock-based compensation | 6 | 12 | 22 | 38 |
| Excess tax benefits from stock-based compensation | — | 6 | — | (17) |
| Deferred taxes | (14) | (27) | (203) | (224) |
| Change in cash from: | | | | |
| Inventory | (592) | (369) | (1,406) | (446) |
| Prepaid expenses and other assets | (30) | (26) | 11 | (41) |
| Merchandise accounts payable | 133 | 393 | 247 | 386 |
| Current income taxes | 2 | 74 | 62 | 108 |
| Accrued expenses and other | 43 | 27 | (135) | (237) |
| **Net cash provided by/(used in) operating activities** | (737) | (48) | (2,197) | (655) |
| **Cash flows from investing activities** | | | | |
| Capital expenditures | (161) | (341) | (814) | (580) |
| Net proceeds from sale or redemption of non-operating assets | 33 | 279 | 88 | 525 |
| Acquisition | — | — | — | (9) |
| Net proceeds from sale of operating assets | — | — | 19 | — |
| **Net cash provided by/(used in) investing activities** | (128) | (62) | (707) | (64) |
| **Cash flows from financing activities** | | | | |
| Proceeds from short-term borrowings | — | — | 850 | — |
| Payment on short-term borrowings | (200) | — | (200) | — |
| Net proceeds from issuance of long-term debt | — | — | 2,180 | — |
| Premium on early retirement of debt | — | — | (110) | — |
| Payments of capital leases and note payable | (5) | (13) | (24) | (13) |
| Payments of long-term debt | (5) | (230) | (250) | (230) |
| Financing costs | (18) | — | (30) | (4) |
| Net proceeds from common stock issued | 786 | — | 786 | — |
| Dividends paid, common | — | — | — | (86) |
| Proceeds from stock options exercised | — | 1 | 7 | 70 |
| Excess tax benefits from stock-based compensation | — | (6) | — | 17 |
| Tax withholding payments for vested restricted stock | (1) | (5) | (8) | (17) |
| **Net cash provided by/(used in) financing activities** | 557 | (253) | 3,201 | (263) |
| Net increase/(decrease) in cash and cash equivalents | (308) | (363) | 297 | (982) |
| Cash and cash equivalents at beginning of period | 1,535 | 888 | 930 | 1,507 |
| **Cash and cash equivalents at end of period** | $ 1,227 | $ 525 | $ 1,227 | $ 525 |
| **Supplemental cash flow information** | | | | |
| Income taxes received/(paid), net | (1) | 134 | 87 | 185 |
| Interest received/(paid), net | (125) | (92) | (361) | (205) |
| **Supplemental non-cash investing and financing activity** | | | | |

| | | | | |
|---|---|---|---|---|
| Increase/(decrease) in other accounts payable related to purchases of property and equipment | (53) | (24) | 49 | 139 |
| Financing costs withheld from proceeds of long-term debt | — | — | 70 | — |
| Purchase of property and equipment and software through capital leases and a note payable | 1 | 57 | 4 | 106 |
| Issuance costs withheld from proceeds of common stock issued | 24 | — | 24 | — |
| Return of shares of Martha Stewart Living Omnimedia Inc. previously acquired by the Company | 36 | — | 36 | — |

*See the accompanying notes to the unaudited Interim Consolidated Financial Statements.*

**J. C. PENNEY COMPANY, INC.**

**NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

***(Unaudited)***

## 1. Basis of Presentation and Consolidation

***Basis of Presentation***

J. C. Penney Company, Inc. is a holding company whose principal operating subsidiary is J. C. Penney Corporation, Inc. (JCP). JCP was incorporated in Delaware in 1924, and J. C. Penney Company, Inc. was incorporated in Delaware in 2002, when the holding company structure was implemented. The holding company has no independent assets or operations, and no direct subsidiaries other than JCP. The holding company and its consolidated subsidiaries, including JCP, are collectively referred to in this quarterly report as “we,” “us,” “our,” “ourselves” or the “Company,” unless otherwise indicated.

J. C. Penney Company, Inc. is a co-obligor (or guarantor, as appropriate) regarding the payment of principal and interest on JCP’s outstanding debt securities. The guarantee of certain of JCP’s outstanding debt securities by J. C. Penney Company, Inc. is full and unconditional.

These unaudited Interim Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and in accordance with the rules and regulations of the Securities and Exchange Commission (SEC). The accompanying unaudited Interim Consolidated Financial Statements, in our opinion, include all material adjustments necessary for a fair presentation and should be read in conjunction with the audited Consolidated Financial Statements and notes thereto in our Annual Report on Form 10-K for the fiscal year ended February 2, 2013 (2012 Form 10-K). We follow substantially the same accounting policies to prepare quarterly financial statements as are followed in preparing annual financial statements. A description of such significant accounting policies is included in the 2012 Form 10-K. The February 2, 2013 financial information was derived from the audited Consolidated Financial Statements, with related footnotes, included in the 2012 Form 10-K. Because of the seasonal nature of the retail business, operating results for interim periods are not necessarily indicative of the results that may be expected for the full year.

***Fiscal Year***

Our fiscal year ends on the Saturday closest to January 31. As used herein, “three months ended November 2, 2013” and “three months ended October 27, 2012” refer to the 13-week periods ended November 2, 2013 and October 27, 2012, respectively. “Nine months ended November 2, 2013” and “nine months ended October 27, 2012,” refer to the 39-week periods ended November 2, 2013 and October 27, 2012, respectively. Fiscal year 2013 contains 52 weeks and fiscal year 2012 contained 53 weeks.

***Basis of Consolidation***

All significant intercompany transactions and balances have been eliminated in consolidation. Certain reclassifications were made to prior period amounts to conform to the current period presentation. None of the reclassifications affected our net income/(loss) in any period.

***Use of Estimates and Assumptions***

The preparation of unaudited Interim Consolidated Financial Statements, in conformity with GAAP, requires us to make assumptions and use estimates that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates relate to: inventory valuation under the retail method; valuation of long-lived assets and indefinite-lived intangible assets for impairments; estimation of reserves and valuation allowances specifically related to closed stores, insurance, income taxes, litigation and environmental contingencies and pension accounting. Such estimates and assumptions are subject to inherent uncertainties, which may result in actual amounts differing from reported amounts.

**2. Earnings/(Loss) per Share**

Net income/(loss) and shares used to compute basic and diluted earnings/(loss) per share (EPS) are reconciled below:

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| *(in millions, except per share data)* | November 2, 2013 | October 27, 2012 | November 2, 2013 | October 27, 2012 |
| **Earnings/(loss)** | | | | |
| Net income/(loss) | $ (489) | $ (123) | $ (1,423) | $ (433) |
| **Shares** | | | | |
| Weighted average common shares outstanding (basic shares) | 251.8 (1) | 219.4 | 230.8 (1) | 219.1 |
| Adjustment for assumed dilution: | | | | |
| Stock options, restricted stock awards and warrant | — | — | — | — |
| Weighted average shares assuming dilution (diluted shares) | 251.8 | 219.4 | 230.8 | 219.1 |
| **EPS** | | | | |
| Basic | $ (1.94) | $ (0.56) | $ (6.17) | $ (1.98) |
| Diluted | $ (1.94) | $ (0.56) | $ (6.17) | $ (1.98) |

*(1) On October 1, 2013, we issued 84 million shares of common stock with a par value of $0.50 per share.*

The following average potential shares of common stock were excluded from the diluted EPS calculation because their effect would have been anti-dilutive:

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| *(Shares in millions)* | November 2, 2013 | October 27, 2012 | November 2, 2013 | October 27, 2012 |
| Stock options, restricted stock awards and warrant | 23.9 | 25.0 | 24.6 | 25.3 |

**3. Credit Facility**

On February 8, 2013, J. C. Penney Company, Inc., JCP and J. C. Penney Purchasing Corporation (Purchasing) entered into an amended and restated revolving credit agreement in the amount up to $1,850 million (2013 Credit Facility), which replaced the Company's prior credit agreement entered into in January 2012, with largely the same syndicate of lenders under the previous agreement, with JPMorgan Chase Bank, N.A., as administrative agent. The 2013 Credit Facility matures on April 29, 2016, increases the letter of credit sublimit to $750 million and provides an accordion feature that could potentially increase the size of the facility by an additional amount not to exceed $400 million.

The 2013 Credit Facility is an asset-based revolving credit facility and is secured by a perfected first-priority security interest in substantially all of our eligible credit card receivables, accounts receivable and inventory. The 2013 Credit Facility is available for general corporate purposes, including the issuance of letters of credit. Pricing under the 2013 Credit Facility is tiered based on JCP's senior unsecured long-term credit ratings issued by Moody's Investors Service, Inc. and Standard & Poor's Ratings Services. JCP's obligations under the 2013 Credit Facility are guaranteed by J. C. Penney Company, Inc.

Availability under the 2013 Credit Facility is limited to a borrowing base which allows us to borrow up to 85% of eligible accounts receivable, plus 90% of eligible credit card receivables, plus 85% of the liquidation value of our inventory, net of certain reserves. Letters of credit reduce the amount available to borrow by their face value. In the event that availability under the 2013 Credit Facility is at any time less than the greater of (1) $125 million or (2) 10% of the lesser of the total facility or the borrowing base then in effect, for a period of at least 30 days, the Company will be subject to a fixed charge coverage ratio covenant of 1.0 to 1.0 which is calculated as of the last day of the quarter and measured on a trailing four-quarter basis.

On April 12, 2013, we borrowed $850 million under the 2013 Credit Facility of which $200 million was repaid during the third quarter of 2013. As of the end of the third quarter of 2013, $650 million of the borrowing remains outstanding. The borrowing bears interest at a rate of LIBOR plus 3.0%. As of the end of the third quarter of 2013, we had $534 million in standby and import letters of credit outstanding under the 2013 Credit Facility, the majority of which are standby letters of credit that support our merchandise initiatives and workers' compensation. None of the standby or import letters of credit have been drawn on. The applicable rate for standby and import letters of credit was 3.00% and 1.50%, respectively, while the required commitment fee was 0.50% for the unused portion of the 2013 Credit Facility. As of the end of the third quarter of 2013, we had $666 million available for future borrowing, of which $481 million is currently accessible due to the limitation of the fixed charge coverage ratio.

**4. Long-Term Debt**

***Tender Offer***
On April 30, 2013 we announced the commencement of a cash tender offer (Tender Offer) and consent solicitation for our 7.125% Debentures Due 2023 (Notes) for total consideration consisting of an amount equal to $1,350 per $1,000 principal amount of Notes, including a consent payment in the amount equal to $50 per $1,000 principal amount of Notes. We solicited consents to effect certain proposed amendments to the indenture, as amended and supplemented, governing the Notes (the Indenture) that would eliminate most of the restrictive covenants and certain events of default and other provisions in the Indenture (Proposed Amendments).

On May 14, 2013, we announced that we had amended our previously announced Tender Offer (Amended Tender Offer) and related solicitation of consents to extend the expiration date of the consent solicitation and to increase the tender consideration. The Amended Tender Offer increased the total consideration from $1,350 to $1,450 per $1,000 principal amount of the Notes (Amended Tender Offer Consideration); extended the expiration date of the consent solicitation from May 13, 2013 to May 20, 2013 (Consent Expiration) and extended the expiration of the tender offer from May 28, 2013 to June 4, 2013 (Expiration Time).

Holders that validly tendered their Notes prior to the Consent Expiration, as extended, received the Amended Tender Offer Consideration. Holders that validly tendered their Notes after the Consent Expiration, as extended, but prior to the Expiration Time, as extended, received only the tender offer consideration of $1,400 per $1,000 principal amount of the Notes (Tender Offer Consideration). Holders whose Notes were accepted for purchase in the Amended Tender Offer also received accrued and unpaid interest to, but not including, the applicable payment date for the Notes. On May 22, 2013, we accepted for purchase $243 million in aggregate principal amount of the Notes, representing 95.41% of the outstanding principal amount, for aggregate Amended Tender Offer Consideration of $352 million. On June 5, 2013, we accepted for purchase an additional $2 million in aggregate principal amount of the Notes, for aggregate Tender Offer Consideration of $3 million. The Tender Offer resulted in a loss on the extinguishment of debt of $114 million which includes the premium paid over face value of the Notes of $110 million, reacquisition costs of $2 million and the write-off of unamortized debt issue costs of $2 million. As a result of receiving the requisite consent of the Holders of at least 66 2/3% of aggregate principal amount of Notes outstanding, the Proposed Amendments were approved and became operative.

***Term Loan Facility***
On May 22, 2013, we entered into a $2.25 billion five-year senior secured term loan facility (2013 Term Loan Facility). The 2013 Term Loan Facility is guaranteed by J. C. Penney Company, Inc. and certain subsidiaries of JCP, and is secured by mortgages on certain real estate of JCP and the guarantors, in addition to substantially all other assets of JCP and the guarantors. Proceeds of the 2013 Term Loan Facility were used to fund the Amended Tender Offer and will be used to fund ongoing working capital requirements and general corporate purposes. We are required to make quarterly repayments in a principal amount equal to $5.625 million during the five-year term of the 2013 Term Loan Facility, beginning September 30, 2013, subject to certain reductions for mandatory and optional prepayments. As of the end of the third quarter of 2013, the balance of the 2013 Term Loan Facility is $2.24 billion.

**5. Fair Value Disclosures**

In determining fair value, the accounting standards establish a three-level hierarchy for inputs used in measuring fair value, as follows:

- Level 1 — Quoted prices in active markets for identical assets or liabilities.
- Level 2 — Significant observable inputs other than quoted prices in active markets for similar assets and liabilities, such as quoted prices for identical or similar assets or liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

- Level 3 — Significant unobservable inputs reflecting our own assumptions, consistent with reasonably available assumptions made by other market participants.

***REIT Assets Measured on a Recurring Basis***
The market value of our investment in public REIT assets are accounted for as available-for-sale securities and are carried at fair value on an ongoing basis in Other assets in the unaudited Interim Consolidated Balance Sheets. We determined the fair value of our investments in REITs using quoted market prices. There were no transfers in or out of any levels during any period presented. Our REIT assets measured at fair value on a recurring basis are as follows:

| | | REIT Assets at Fair Value | | |
|---|---|---|---|---|
| *($ in millions)* | Cost Basis | Quoted Prices in Active Markets of Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| November 2, 2013 | $ 7 | $ 32 | $ — | $ — |
| October 27, 2012 | 9 | 32 | — | — |
| February 2, 2013 | 7 | 33 | — | — |

***Other Financial Instruments***
Carrying values and fair values of financial instruments that are not carried at fair value in the unaudited Interim Consolidated Balance Sheets are as follows:

| | November 2, 2013 | | October 27, 2012 | | February 2, 2013 | |
|---|---|---|---|---|---|---|
| *($ in millions)* | Carrying Amount | Fair Value | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Long-term debt, including current maturities | $ 4,868 | $ 4,252 | $ 2,868 | $ 2,706 | $ 2,868 | $ 2,456 |
| Cost investment (Note 9) | — | — | 36 | — | 36 | — |

The fair value of long-term debt is estimated by obtaining quotes from brokers or is based on current rates offered for similar debt. The cost investment was for equity securities that were not registered and freely tradable shares and their fair values were not readily determinable; however, we believe the carrying value approximates or was less than the fair value as of October 27, 2012 and February 2, 2013.

As of November 2, 2013, October 27, 2012 and February 2, 2013, the fair values of cash and cash equivalents and accounts payable approximate their carrying values due to the short-term nature of these instruments. In addition, the fair values of short-term borrowings, capital lease commitments and the note payable approximate their carrying values. These items have been excluded from the table above.

***Concentrations of Credit Risk***
We have no significant concentrations of credit risk.

**6. Stockholders' Equity**

The following table shows the change in the components of stockholders' equity for the nine months ended November 2, 2013:

| *(in millions)* | Number of Common Shares | Common Stock | Additional Paid-in Capital | Reinvested Earnings/ (Accumulated Deficit) | Accumulated Other Comprehensive Income/(Loss) | Total Stockholders' Equity |
|---|---|---|---|---|---|---|
| February 2, 2013 | 219.3 | $ 110 | $ 3,799 | $ 380 | $ (1,118) | $ 3,171 |
| Net income/(loss) | — | — | — | $ (1,423) | — | $ (1,423) |
| Other comprehensive income/(loss) | — | — | — | — | 80 | $ 80 |
| Common stock issued | 84.0 | 42 | 744 | — | — | 786 |
| Stock-based compensation | 1.3 | 1 | 32 | — | — | 33 |
| November 2, 2013 | 304.6 | $ 153 | $ 4,575 | $ (1,043) | $ (1,038) | $ 2,647 |

***Comprehensive Income***

The tax effects allocated to each component of other comprehensive income/(loss) are as follows:

| | Three Months Ended | | | | | |
|---|---|---|---|---|---|---|
| | November 2, 2013 | | | October 27, 2012 | | |
| *($ in millions)* | Gross Amount | Income Tax (Expense)/ Benefit | Net Amount | Gross Amount | Income Tax (Expense)/ Benefit | Net Amount |
| **REITs** | | | | | | |
| Unrealized gain/(loss) | $ (1) | $ 1 | $ — | $ 1 | $ — | $ 1 |
| Reclassification adjustment for realized (gain)/loss | — | — | — | (15) | 5 | (10) |
| **Retirement benefit plans** | | | | | | |
| Net actuarial gain/(loss) arising during the period | — | — | — | (125) | 50 | (75) |
| Reclassification of net prior service (credit)/cost from a curtailment | — | — | — | (5) | 2 | (3) |
| Reclassification for amortization of net actuarial loss/(gain) | 43 | (17) | 26 | 61 | (24) | 37 |
| Reclassification for amortization of prior service cost/(credit) | (1) | 1 | — | (4) | 2 | (2) |
| Total | $ 41 | $ (15) | $ 26 | $ (87) | $ 35 | $ (52) |

| ($ in millions) | Nine Months Ended November 2, 2013 Gross Amount | Income Tax (Expense)/ Benefit | Net Amount | Nine Months Ended October 27, 2012 Gross Amount | Income Tax (Expense)/ Benefit | Net Amount |
|---|---|---|---|---|---|---|
| **REITs** | | | | | | |
| Unrealized gain/(loss) | $ (1) | $ 1 | $ — | $ 52 | $ (18) | $ 34 |
| Reclassification adjustment for realized (gain)/loss | — | — | — | (285) (1) | 101 | (184) |
| **Retirement benefit plans** | | | | | | |
| Net actuarial gain/(loss) arising during the period | — | — | — | (125) | 50 | (75) |
| Reclassification of net prior service (credit)/cost from a curtailment | — | — | — | (5) | 2 | (3) |
| Reclassification for amortization of net actuarial loss/(gain) | 131 | (50) | 81 | 188 | (74) | 114 |
| Reclassification for amortization of prior service cost/(credit) | (2) | 1 | (1) | (11) | 5 | (6) |
| Total | $ 128 | $ (48) | $ 80 | $ (186) | $ 66 | $ (120) |

*(1) During the second quarter of 2012, the reclassification adjustment for the Simon Property Group, L.P. (SPG) units of $270 million was calculated by using the closing fair market value per SPG unit of $158.13 on July 19, 2012 for the two million REIT units that were redeemed on July 20, 2012. The REIT units were redeemed at a price of $124.00 per unit (see Note 10).*

The following table shows the changes in accumulated other comprehensive income/(loss) balances for the nine months ended November 2, 2013:

| ($ in millions) | Unrealized Gain/(Loss) on REITs | Net Actuarial Gain/(Loss) | Prior Service Credit/(Cost) | Accumulated Other Comprehensive Income/(Loss) |
|---|---|---|---|---|
| February 2, 2013 | $ 17 | $ (1,121) | $ (14) | $ (1,118) |
| Other comprehensive income/(loss) before reclassifications | — | — | — | — |
| Amounts reclassified from accumulated other comprehensive income | — | 81 | (1) | 80 |
| Net current-period other comprehensive income | — | 81 | (1) | 80 |
| November 2, 2013 | $ 17 | $ (1,040) | $ (15) | $ (1,038) |

Reclassifications out of accumulated other comprehensive income/(loss) are as follows:

| | Amount Reclassified from Accumulated Other Comprehensive Income/(Loss) | | | | Line Item in the Unaudited Interim Consolidated Statements of Operations |
|---|---|---|---|---|---|
| | Three Months Ended | | Nine Months Ended | | |
| *($ in millions)* | November 2, 2013 | October 27, 2012 | November 2, 2013 | October 27, 2012 | |
| **Realized (gain)/loss on REITs** | | | | | |
| Redemption of SPG REIT units | $ — | $ — | $ — | $ (270) | Real estate and other, net |
| Sale of CBL REIT shares | — | (15) | — | (15) | Real estate and other, net |
| Tax (expense)/benefit | — | 5 | — | 101 | Income tax expense/(benefit) |
| Total, net of tax | — | (10) | — | (184) | |
| **Amortization of retirement benefit plans** | | | | | |
| Actuarial loss/(gain)[1] | 44 | 61 | 132 | 188 | Pension |
| Prior service cost/(credit)[1] | 1 | — | 4 | — | Pension |
| Actuarial loss/(gain)[1] | (1) | — | (1) | — | SG&A |
| Prior service cost/(credit)[1] | (2) | (4) | (6) | (11) | SG&A |
| Prior service (credit)/cost from a curtailment | — | (5) | — | (5) | Restructuring and management transition |
| Tax (expense)/benefit | (16) | (20) | (49) | (67) | Income tax expense/(benefit) |
| Total, net of tax | 26 | 32 | 80 | 105 | |
| Total reclassifications | $ 26 | $ 22 | $ 80 | $ (79) | |

*(1) These accumulated other comprehensive components are included in the computation of net periodic benefits expense/(income). See Note 8 for additional details.*

***Issuance of Common Stock***

On October 1, 2013, we issued 84 million shares of common stock with a par value of $0.50 per share for $9.65 per share for total net proceeds of $786 million after $24 million of fees.

***Stockholders' Rights Agreement***

As authorized by our Company's Board of Directors, the Company adopted a Rights Agreement, dated as of August 22, 2013 (Rights Agreement), by and between the Company and Computershare Inc., as Rights Agent. Pursuant to the terms of the Rights Agreement that expires on August 20, 2014, one preferred stock purchase right (a Right) was attached to each outstanding share of Common Stock of $0.50 par value of the Company (Common Stock) held by holders of record as of the close of business on September 3, 2013. Additionally, the Company will issue one Right with each new share of Common Stock issued. The Rights, registered on August 23, 2013, will initially trade with and be inseparable from our Common Stock and will not be evidenced by separate certificates unless they become exercisable.

Each Right entitles its holder to purchase from the Company 1/1000th of a share of a newly authorized series of participating preferred stock at an exercise price of $55.00, subject to adjustment in accordance with the terms of the Rights Agreement, once the Rights become exercisable. In general terms, under the Rights Agreement, the Rights become exercisable if any person or group acquires 10% or more of the Common Stock or, in the case of any person or group that owned 10% or more of the Common Stock as of August 22, 2013, upon the acquisition of any additional shares by such person or group. In addition, the Company, its subsidiaries, employee benefit plans of the Company or any of its subsidiaries, and any entity holding Common Stock for or pursuant to the terms of any such plan, are excepted. Upon exercise of the Right in accordance with the Rights Agreement, the holder would be able to purchase a number of shares of Common Stock from the Company having an aggregate market value (as defined in the Rights Agreement) equal to twice the then-current exercise price for an amount in cash equal to the then-current exercise price. The Rights will not prevent a takeover of our Company, but may cause substantial dilution to a person that acquires 10% or more of our Common Stock.

**7. Stock-Based Compensation**

We grant stock-based compensation awards to employees and non-employee directors under our equity compensation plan. On May 18, 2012, our stockholders approved the J. C. Penney Company, Inc. 2012 Long-Term Incentive Plan (2012 Plan), reserving 7 million shares for future grants (1.5 million newly authorized shares plus up to 5.5 million reserved but unissued shares from our prior 2009 Long-Term Incentive Plan (2009 Plan)). In addition, shares underlying any outstanding stock award or stock option grant canceled prior to vesting or exercise become available for use under the 2012 Plan. The 2009 Plan terminated on May 18, 2012, except for outstanding awards, and all subsequent awards have been granted under the 2012 Plan. As of November 2, 2013, there were approximately 4.6 million shares of stock available for future grant under the 2012 Plan.

On March 4, 2013, we granted awards to employees consisting of approximately 70,000 stock options at an option price of $16.74 and a fair value of $7.88 per option and approximately 94,000 time-based restricted stock units (RSU's) with a fair value of $16.74 per RSU award.

On April 3, 2013, we made an annual grant to employees consisting of approximately 3.3 million stock options at an option price of $14.43 and a fair value of $7.07 per option, approximately 621,000 time-based RSU's with a fair value of $14.43 per RSU award and approximately 998,000 performance-based restricted stock units (PBRSU's) with a fair value of $14.43 per PBRSU award. The number of PBRSU's that ultimately vest is dependent on the achievement of a 2013 internal profitability target (performance condition).

During the second quarter of 2013, we granted approximately 74,000 stock options to employees at an option price of $18.98 and a fair value of $9.35 per option. Additionally, we granted approximately 77,000 time-based RSU's to employees with a fair value of $18.98 per RSU award as well as approximately 64,000 time-based RSU's to directors with a fair value of $18.72 per RSU award.

During the third quarter of 2013, we granted approximately 65,000 time-based RSU's to employees with a fair value of $13.20 per RSU award and approximately 9,000 time-based RSUs to directors with a fair value of $13.83 per RSU award.

The following table presents total stock-based compensation costs by line item in the unaudited Interim Consolidated Statements of Operations:

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| *($ in millions)* | **November 2, 2013** | **October 27, 2012** | **November 2, 2013** | **October 27, 2012** |
| SG&A | $ 5 | $ 11 | $ 19 | $ 34 |
| Cost of goods sold | 1 | 1 | 3 | 4 |
| Restructuring and management transition (Note 9) | 1 | — | 17 | 9 |
| Total stock-based compensation | $ 7 | $ 12 | $ 39 | $ 47 |

## 8. Retirement Benefit Plans

The components of net periodic benefit expense/(income) for our non-contributory qualified defined benefit pension plan (Primary Pension Plan), non-contributory supplemental pension plans and contributory postretirement health and welfare plan are as follows:

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| *($ in millions)* | November 2, 2013 | October 27, 2012 | November 2, 2013 | October 27, 2012 |
| **Primary Pension Plan** | | | | |
| Service cost | $ 20 | $ 21 | $ 59 | $ 67 |
| Interest cost | 51 | 61 | 153 | 185 |
| Expected return on plan assets | (85) | (95) | (255) | (284) |
| Amortization of actuarial loss/(gain) | 38 | 55 | 114 | 171 |
| Amortization of prior service cost/(credit) | 1 | — | 4 | — |
| Net periodic benefit expense/(income) | $ 25 | $ 42 | $ 75 | $ 139 |
| **Supplemental Pension Plans** | | | | |
| Service cost | $ — | $ — | $ — | $ 1 |
| Interest cost | 3 | 3 | 9 | 10 |
| Amortization of actuarial loss/(gain) | 6 | 6 | 18 | 17 |
| Amortization of prior service cost/(credit) | — | — | — | — |
| Net periodic benefit expense/(income) | $ 9 | $ 9 | $ 27 | $ 28 |
| **Primary and Supplemental Pension Plans Total** | | | | |
| Service cost | $ 20 | $ 21 | $ 59 | $ 68 |
| Interest cost | 54 | 64 | 162 | 195 |
| Expected return on plan assets | (85) | (95) | (255) | (284) |
| Amortization of actuarial loss/(gain) | 44 | 61 | 132 | 188 |
| Amortization of prior service cost/(credit) | 1 | — | 4 | — |
| Net periodic benefit expense/(income) | $ 34 | $ 51 | $ 102 | $ 167 |
| **Postretirement Health and Welfare Plan** | | | | |
| Service cost | $ — | $ — | $ — | $ — |
| Interest cost | 1 | — | 1 | 1 |
| Amortization of actuarial loss/(gain) | (1) | — | (1) | — |
| Amortization of prior service cost/(credit) | (2) | (4) | (6) | (11) |
| Net periodic benefit expense/(income) | $ (2) | $ (4) | $ (6) | $ (10) |
| **Retirement Benefit Plans Total** | | | | |
| Service cost | $ 20 | $ 21 | $ 59 | $ 68 |
| Interest cost | 55 | 64 | 163 | 196 |
| Expected return on plan assets | (85) | (95) | (255) | (284) |
| Amortization of actuarial loss/(gain) | 43 | 61 | 131 | 188 |
| Amortization of prior service cost/(credit) | (1) | (4) | (2) | (11) |
| Net periodic benefit expense/(income) | $ 32 | $ 47 | $ 96 | $ 157 |

Net periodic benefit expense/(income) for our noncontributory postretirement health and welfare plan is predominantly included in SG&A expense in the unaudited Interim Consolidated Statements of Operations.

***Curtailments***
During the first half of 2012, we took actions to reduce our work force. During the third quarter of 2012, when substantially all employee exits were completed, we recorded a net curtailment gain of $7 million due to the reduction in the expected years of future service related to our retirement benefit plans. The net curtailment gain is included in the line item Restructuring and management transition in the unaudited Interim Consolidated Statements of Operations (see Note 9).

***Defined Contribution Plans***
Our defined contribution plans include a qualified Savings, Profit-Sharing and Stock Ownership Plan (401(k) plan), which includes a non-contributory retirement account, and a non-qualified contributory unfunded mirror savings plan offered to certain members of management. Total expense for our defined contribution plans for the third quarters of 2013 and 2012 was $12 million and $13 million, respectively, and was predominantly included in SG&A expenses in the unaudited Interim Consolidated Statements of Operations. Total expense for the first nine months of 2013 and 2012 was $38 million and $43 million, respectively.

**9. Restructuring and Management Transition**

The composition of restructuring and management transition charges was as follows:

| | Three Months Ended | | Nine Months Ended | | Cumulative |
|---|---|---|---|---|---|
| *($ in millions)* | November 2, 2013 | October 27, 2012 | November 2, 2013 | October 27, 2012 | Amount Through November 2, 2013 |
| Supply chain | $ — | $ 3 | $ — | $ 19 | $ 60 |
| Home office and stores | (6) | 4 | 26 | 105 | 180 |
| Software and systems | — | — | — | 36 | 36 |
| Store fixtures | 10 | 18 | 55 | 60 | 133 |
| Management transition | 3 | 6 | 32 | 36 | 203 |
| Other | 39 | 3 | 52 | 13 | 100 |
| Total | $ 46 | $ 34 | $ 165 | $ 269 | $ 712 |

***Supply chain***
As a result of consolidating and streamlining our supply chain organization as part of a restructuring program that began in 2011, during the three and nine months ended October 27, 2012 we recorded charges of $3 million and $19 million, respectively, related to increased depreciation, termination benefits and unit closing costs. This restructuring activity was completed during the third quarter of 2012.

***Home office and stores***
During the three months ended November 2, 2013 and October 27, 2012, we recorded a $6 million credit and $4 million of net charges, respectively, associated with employee termination benefits for actions to reduce our store and home office expenses. The $6 million credit for the third quarter of 2013 resulted from termination benefits paid that were lower than expected primarily because employees found other positions within the Company and revisions were made to the restructuring plan. During the third quarter of 2012, when substantially all employee exits were completed, we recorded a net curtailment gain of $7 million (see Note 8). The net curtailment gain was more than offset by charges associated with employee termination benefits of $11 million. During the nine months ended November 2, 2013 and October 27, 2012, we recorded net charges of $26 million and $105 million, respectively, related to store and home office employee termination benefits.

***Software and systems***
During the nine months ended October 27, 2012, we recorded a charge of $36 million related to the disposal of software and systems that based on our evaluation no longer supported our then current strategy. Included in this amount is $3 million of consulting fees related to that evaluation.

***Store fixtures***
During the three months ended November 2, 2013, we recorded $2 million for the impairment of certain store fixtures related to our former shops strategy that were used in our prototype department store and $8 million of increased depreciation as a result of shortening the useful lives of fixtures in our department stores that were replaced during the first nine months of 2013. During the nine months ended November 2, 2013, we recorded $7 million of charges for the write-off of store fixtures related to the renovations in our home department and $37 million of increased depreciation as a result of shortening the useful lives of

fixtures in our department stores that were replaced during the first nine months of 2013. In addition, during the nine months ended November 2, 2013, we recorded $11 million of charges for the impairment of certain store fixtures related to our former shops strategy that were used in our prototype department store.

During the three months ended October 27, 2012, we recorded $11 million of charges related to the removal of store fixtures in our department stores. In addition, we recorded $7 million of increased depreciation as a result of shortening the useful lives of fixtures in our department stores that were replaced throughout 2013 with the build out of additional attractions. During the nine months ended October 27, 2012, we recorded charges of $60 million related to the write-off and increased depreciation for store fixtures that were replaced with new store attraction fixtures.

***Management transition***
During the three months ended November 2, 2013 and October 27, 2012, we implemented several changes within our management leadership team that resulted in management transition costs of $3 million and $6 million, respectively, for both incoming and outgoing members of management. During the nine months ended November 2, 2013 and October 27, 2012, we recorded management transition charges of $32 million and $36 million, respectively.

***Other***
During the three months ended November 2, 2013 and October 27, 2012, we recorded $39 million and $3 million, respectively, of miscellaneous restructuring charges. During the nine months ended November 2, 2013 and October 27, 2012, we recorded $52 million and $13 million, respectively, of miscellaneous restructuring charges. The charges during 2013 were primarily related to contract termination costs and other costs associated with our previous marketing and shops strategy, including a non-cash charge of $36 million during the third quarter relating to the return of shares of Martha Stewart Living Omnimedia Inc. previously acquired by the Company, which was accounted for as a cost investment (Note 5). The charges in the first quarter of 2012 were primarily related to the exit of our specialty websites CLAD™ and Gifting Grace™, and the charges in the second quarter of 2012 were primarily related to costs associated with the closing of our Pittsburgh, Pennsylvania customer call center.

Activity for the restructuring and management transition liability for the nine months ended November 2, 2013 was as follows:

| *($ in millions)* | **Supply Chain** | **Home Office and Stores** | **Store Fixtures** | **Management Transition** | **Other** | **Total** |
|---|---|---|---|---|---|---|
| February 2, 2013 | $ 2 | $ 4 | $ — | $ — | $ 12 | $ 18 |
| Charges | — | 26 [1] | 55 | 32 | 52 | 165 |
| Cash payments | (2) | (27) | — | (16) | (15) | (60) |
| Non-cash | — | (2) | (55) | (16) | (36) | (109) |
| November 2, 2013 | $ — | $ 1 | $ — | $ — | $ 13 | $ 14 |

*(1) Includes the $6 million credit in the third quarter of 2013 resulting from termination benefits paid that were lower than expected primarily because employees found other positions within the Company and revisions were made to the restructuring plan.*

Non-cash amounts represent charges that do not result in cash expenditures including increased depreciation, write-off of store fixtures and a cost investment and stock-based compensation expense for accelerated vesting related to terminations.

### 10. Real Estate and Other, Net

Real estate and other consists of ongoing operating income from our real estate subsidiaries whose investments are in REITs, as well as investments in joint ventures that own regional mall properties. Real estate and other also includes net gains from the sale of facilities and equipment that are no longer used in operations, asset impairments and other non-operating charges and credits. The composition of real estate and other, net was as follows:

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| *($ in millions)* | November 2, 2013 | October 27, 2012 | November 2, 2013 | October 27, 2012 |
| Gain on sale or redemption of non-operating assets, net: | | | | |
| Redemption of SPG REIT units | $ — | $ — | $ — | $ (200) |
| Sale of CBL & Associates Properties, Inc. (CBL) REIT shares | — | (15) | — | (15) |
| Sale of leveraged leases | — | (28) | — | (28) |
| Sale of investment in joint ventures | (23) | (151) | (85) | (151) |
| Sale of other non-operating assets | (1) | (3) | (1) | (3) |
| Net gain on sale or redemption of non-operating assets | (24) | (197) | (86) | (397) |
| Dividend income from REITs | — | (1) | — | (6) |
| Investment income from joint ventures | (1) | (3) | (5) | (9) |
| Gain on sale of operating assets | — | — | (18) | — |
| Other | (2) | 4 | (8) | — |
| Real estate and other (income)/expense, net | $ (27) | $ (197) | $ (117) | $ (412) |

***REIT Assets***

On July 20, 2012, SPG redeemed two million of our REIT units at a price of $124.00 per unit for a total redemption price of $246 million, net of fees. As of the market close on July 19, 2012, the SPG REIT units had a fair market value of $158.13 per unit. In connection with the redemption, we realized a net gain of $200 million determined using the first-in-first-out method for determining the cost of REIT units sold. Following the transaction, we continue to hold approximately 205,000 REIT units in SPG.

On October 23, 2012, we sold all of our CBL REIT shares at a price of $21.35 per share for a total price of $40 million, net of fees. In connection with the sale, we realized a net gain of $15 million.

***Leveraged Leases***

During the third quarter of 2012, we sold all of our leveraged lease assets for $146 million, net of fees. The investments in the leveraged lease assets as of the dates of the sales were $118 million and we recorded a net gain of $28 million.

***Joint Venture***

During the third quarter of 2013, we sold our investment in three joint ventures for $32 million, resulting in a net gain of $23 million. During the second quarter of 2013, we sold our investment in a joint venture for $55 million, resulting in a net gain of $62 million. The gain exceeded the cash proceeds as a result of distributions of cash related to refinancing transactions in prior periods that were recorded as net reductions in the carrying amount of the investment. The net book value of the joint venture investment was a negative $7 million and was included in Other liabilities in the unaudited Interim Consolidated Balance Sheets.

During the third quarter of 2012, we sold our investments in four joint ventures for $90 million, resulting in net gains totaling $151 million. The gain exceeded the cash proceeds as a result of distributions of cash related to refinancing transactions in prior periods that were recorded as net reductions in the carrying amount of the investments. The cumulative net book value of the joint venture investments was a negative $61 million.

***Other Non-Operating Assets***
During the third quarter of 2013, we sold approximately 10 acres of excess land for net proceeds and gain of $1 million. During the third quarter of 2012, we sold a building used in our former drugstore operations for net proceeds and a gain of $3 million.

***Operating Assets***
During the first quarter of 2013, we sold our leasehold interest of a former department store location with a net book value of $2 million for net proceeds of $18 million, realizing a gain of $16 million. During the second quarter of 2013, we sold two properties, realizing a gain of $2 million.

**11. Income Taxes**

The income tax benefit for the three months ended November 2, 2013 was $11 million as compared to $88 million for the three months ended October 27, 2012. The effective tax rate for the three months ended November 2, 2013 was (2.2)% as compared to (41.7)% for the three months ended October 27, 2012. The income tax benefit for the nine months ended November 2, 2013 was $228 million compared to $301 million for the nine months ended October 27, 2012. The effective tax rate for the nine months ended November 2, 2013 was (13.8)% compared to (41.0)% for the nine months ended October 27, 2012. Our effective tax rate for the three and nine months ended November 2, 2013 was negatively impacted by increases to the tax valuation allowance for deferred tax assets of $184 million and $416 million, respectively.

In assessing the need for the valuation allowance, we considered both positive and negative evidence related to the likelihood of realization of the deferred tax assets. As a result of our assessment, we concluded that, beginning in the second quarter of 2013, our estimate of the realization of deferred tax assets would be based solely on the future reversals of existing taxable temporary differences and tax planning strategies that we would make use of to accelerate taxable income to utilize expiring carryforwards. Accordingly, in the third quarter of 2013, the valuation allowance was increased to offset the net deferred tax assets created in the quarter relating primarily to the increase in net operating loss carryforwards. A valuation allowance of $482 million has been recorded against our deferred tax assets as of November 2, 2013. This resulted in an increase to the valuation allowance during the quarter ended November 2, 2013 of $184 million, of which $154 million relates to the increase in the deferred tax assets created for federal net operating loss carryforwards and $30 million relates to deferred tax assets created for state net operating loss carryforwards.

As a result of the valuation allowance, for the three months ended November 2, 2013, we recorded a net tax benefit of only $11 million. The net tax benefit consists of a $16 million non-cash benefit relating to other comprehensive income, offset by state and foreign tax expenses of $3 million and $2 million of tax expense on the amortization of certain indefinite-lived intangible assets that were not available to offset existing deferred taxes. In accordance with accounting standards, we are required to allocate a portion of our tax provision between operating losses and accumulated other comprehensive income. Application of this guidance required the recognition of a non-cash income tax benefit of $16 million in operating results, offset by a $16 million charge to other comprehensive income for the quarter.

As of November 2, 2013, we have approximately $2.5 billion of net operating losses available for U.S. federal income tax purposes which expire in 2032 and 2033 for which a net deferred tax asset of $527 million has been recorded, net of a valuation allowance of $337 million. A net deferred tax asset of $50 million, net of a valuation allowance of $145 million, has been recorded for state net operating losses that expire at various dates through 2033.

**12. Litigation, Other Contingencies and Guarantees**

**Litigation**
***Macy's Litigation***
On August 16, 2012, Macy's, Inc. and Macy's Merchandising Group, Inc. (together the Plaintiffs) filed suit against J. C. Penney Corporation, Inc. in the Supreme Court of the State of New York, County of New York, alleging that the Company tortiously interfered with, and engaged in unfair competition relating to a 2006 agreement between Macy's and Martha Stewart Living Omnimedia, Inc. (MSLO) by entering into a partnership agreement with MSLO in December 2011. The Plaintiffs seek primarily to prevent the Company from implementing our partnership agreement with MSLO as it relates to products in the bedding, bath, kitchen and cookware categories. The suit was consolidated with an already-existing breach of contract lawsuit by the Plaintiffs against MSLO, and a bench trial commenced on February 20, 2013. On March 7, 2013, the judge adjourned the trial until April 8, 2013, and ordered the parties into mediation. The parties did not reach a settlement, and the trial continued on April 8, 2013. The parties concluded their presentations of evidence on April 26, 2013, and completed post-trial briefs in late May, 2013. The court held closing arguments on August 1, 2013. The court has not yet issued a final decision in the case. On October 21, 2013, the Company and MSLO entered into an amendment of the partnership agreement, providing in part that the Company will not sell MSLO-designed merchandise in the bedding, bath, kitchen and cookware categories. While

no assurance can be given as to the ultimate outcome of this matter, we currently believe that the final resolution of this action will not have a material adverse effect on our results of operations, financial position, liquidity or capital resources.

***Other Legal Proceedings***
We are subject to various legal and governmental proceedings involving routine litigation incidental to our business. Reserves have been established based on our best estimates of our potential liability in certain of these matters. These estimates have been developed in consultation with in-house and outside counsel. While no assurance can be given as to the ultimate outcome of these matters, management currently believes that the final resolution of these actions, individually or in the aggregate, will not have a material adverse effect on our results of operations, financial position, liquidity or capital resources.

**Contingencies**
As of November 2, 2013, we estimated our total potential environmental liabilities to range from $17 million to $24 million and recorded our best estimate of $18 million in other liabilities in the unaudited Interim Consolidated Balance Sheet as of that date. This estimate covered potential liabilities primarily related to underground storage tanks, remediation of environmental conditions involving our former drugstore locations and asbestos removal in connection with approved plans to renovate or dispose of our facilities. We continue to assess required remediation and the adequacy of environmental reserves as new information becomes available and known conditions are further delineated. If we were to incur losses at the upper end of the estimated range, we do not believe that such losses would have a material adverse effect on our results of operations, financial position, liquidity or capital resources.

**Guarantees**
As of November 2, 2013, we had a guarantee totaling $20 million for the maximum exposure on insurance reserves established by a former subsidiary included in the sale of our Direct Marketing Services business. In connection with the sale of the operations of our outlet stores, we assigned leases on 7 outlet store locations to the purchaser. In the event that the purchaser fails to make the required lease payments, we continue for a period of time to be liable for lease payments to each landlord of the 7 assigned leases. The purchaser's obligations under the leases are guaranteed to us by certain principals and affiliates of the purchaser. However, the purchaser has elected to exit the outlet business and is expected to terminate the leases with the landlords. Consequently, we expect that our continuing obligations under each lease will be extinguished in connection with each termination. As of November 2, 2013, our maximum liability in connection with the assigned leases is $9 million.

In connection with the redemption of two million of our SPG REIT units, we agreed to make future capital contributions to SPG under certain circumstances. Capital contributions would be required only if (i) one or more unsecured senior notes or term loans of SPG are in default and (ii) the aggregate amount received and/or realized by the lenders with respect to such notes or loans upon the exhaustion of all other remedies available to them is less than the maximum amount of all capital contribution commitments of the Company and other parties with similar commitments. Our contribution obligation is subject to a maximum aggregate amount of $360 million, and is proportionate to our share of all similar commitments provided by the Company and other parties. Under certain circumstances, including the disposition of its remaining SPG REIT units, the Company can terminate its obligation. On November 19, 2013, our SPG REIT units were converted to shares and, as a result, the capital contribution obligation will terminate 90 days from that date. The possibility that we would be required to make a contribution is considered remote, and as such, no amount has been recorded in the unaudited Interim Consolidated Financial Statements.

**13. Recently Issued Accounting Pronouncement**

In July 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2013-11, *Income Taxes (Topic 740) - Presentation of an Unrecognized Tax Benefit when a Net Operating Loss Carryforward or Tax Credit Carryforward Exists.* This update provides that an entity's unrecognized tax benefit, or a portion of its unrecognized tax benefit, should be presented in its financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, with one exception. That exception states that, to the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position, or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. This update applies prospectively to all entities that have unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists at the reporting date. Retrospective application is also permitted. This update is effective for annual periods, and interim periods within those years, beginning after December 15, 2013. We do not anticipate the adoption to have a material impact on our consolidated results operations, cash flows or financial position.

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

**General**

J. C. Penney Company, Inc. is a holding company whose principal operating subsidiary is J. C. Penney Corporation, Inc. (JCP). JCP was incorporated in Delaware in 1924, and J. C. Penney Company, Inc. was incorporated in Delaware in 2002, when the holding company structure was implemented. The holding company has no independent assets or operations and no direct subsidiaries other than JCP. The holding company and its consolidated subsidiaries, including JCP, are collectively referred to in this quarterly report as "we," "us," "our," "ourselves" or the "Company," unless otherwise indicated.

The holding company is a co-obligor (or guarantor, as appropriate) regarding the payment of principal and interest on JCP's outstanding debt securities. The guarantee of certain of JCP's outstanding debt securities by the holding company is full and unconditional.

This discussion is intended to provide information that will assist the reader in understanding our financial statements, the changes in certain key items in those financial statements from period to period, and the primary factors that accounted for those changes, how operating results affect the financial condition and results of operations of our Company as a whole, as well as how certain accounting principles affect the financial statements. It should be read in conjunction with our consolidated financial statements as of February 2, 2013, and for the year then ended, and related Notes and Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A), all contained in the Annual Report on Form 10-K for the fiscal year ended February 2, 2013 (2012 Form 10-K). Unless otherwise indicated, all references to earnings/(loss) per share (EPS) are on a diluted basis and all references to years relate to fiscal years rather than to calendar years.

**Third Quarter Summary and Key Developments**

- For the third quarter of 2013, sales were $2,779 million, a decrease of 5.1% as compared to the corresponding quarter in 2012. Comparable store sales decreased 4.8% for the third quarter of 2013. Sales through jcp.com increased 24.5%, to $266 million.

- For the third quarter of 2013, gross margin as a percentage of sales was 29.5% compared to 32.5% in the same period last year. The decrease in gross margin as a percentage of sales was primarily due to a change in the merchandise sales mix, which includes the impact of higher levels of clearance units sold at lower margins, including additional markdowns taken to sell through inventory associated with our previous strategy, as well as our transition back to a promotional pricing strategy as compared to last year's strategy.

- Selling, general and administrative (SG&A) expenses decreased $81 million, or 7.5%, for the third quarter of 2013 as compared to the corresponding quarter in 2012 as we continue to realize the benefits from our cost savings initiatives.

- In the third quarter of 2013, we recognized a tax benefit of $11 million, reflecting a significant reduction in tax benefits typically recognized from federal and state loss carryforwards due to the recognition of a tax valuation allowance of $184 million during the quarter. This resulted in an effective tax rate of only (2.2)% for the third quarter compared to (41.7)% in the third quarter of 2012 and negatively impacted EPS by $0.73.

- For the third quarter of 2013, our net loss was $489 million, or $1.94 per share, compared to a net loss of $123 million, or $0.56 per share, for the corresponding prior year quarter. Results for this quarter included $46 million, or $0.18 per share, of restructuring and management transition charges, $25 million, or $0.04 per share, for the impact of our qualified defined benefit pension plan (Primary Pension Plan) expense and $24 million, or $0.09 per share, for the net gain on the sale of non-operating assets.

- On October 1, 2013, we issued 84 million shares of common stock with a par value of $0.50 per share for $9.65 per share for total net proceeds of $786 million.

**Results of Operations**

| ($ in millions, except EPS) | Three Months Ended November 2, 2013 | Three Months Ended October 27, 2012 | Nine Months Ended November 2, 2013 | Nine Months Ended October 27, 2012 |
|---|---|---|---|---|
| Total net sales | $ 2,779 | $ 2,927 | $ 8,077 | $ 9,101 |
| Percent increase/(decrease) from prior year | (5.1)% | (26.6)% | (11.3)% | (23.1)% |
| Comparable store sales increase/(decrease)(1) | (4.8)% | (26.1)% | (11.2)% | (22.3)% |
| Gross margin | 819 | 952 | 2,418 | 3,142 |
| Operating expenses/(income): | | | | |
| Selling, general and administrative | 1,006 | 1,087 | 3,110 | 3,297 |
| Primary pension plan | 25 | 42 | 75 | 139 |
| Supplemental pension plans | 9 | 9 | 27 | 28 |
| Total pension | 34 | 51 | 102 | 167 |
| Depreciation and amortization | 161 | 133 | 440 | 386 |
| Real estate and other, net | (27) | (197) | (117) | (412) |
| Restructuring and management transition | 46 | 34 | 165 | 269 |
| Total operating expenses | 1,220 | 1,108 | 3,700 | 3,707 |
| Operating income/(loss) | (401) | (156) | (1,282) | (565) |
| *Adjusted operating income/(loss) (non-GAAP)(2)* | (354) | (277) | (1,128) | (399) |
| Loss on extinguishment of debt | — | — | 114 | — |
| Net interest expense | 99 | 55 | 255 | 169 |
| Income/(loss) before income taxes | (500) | (211) | (1,651) | (734) |
| Income tax expense/(benefit) | (11) | (88) | (228) | (301) |
| Net income/(loss) | $ (489) | $ (123) | $ (1,423) | $ (433) |
| *Adjusted net income/(loss) (non-GAAP)(2)* | $ (457) | $ (203) | $ (1,223) | $ (339) |
| Diluted EPS | $ (1.94) | $ (0.56) | $ (6.17) | $ (1.98) |
| *Adjusted diluted EPS (non-GAAP)(2)* | $ (1.81) | $ (0.93) | $ (5.30) | $ (1.55) |
| Ratios as a percent of sales: | | | | |
| Gross margin | 29.5 % | 32.5 % | 29.9 % | 34.5 % |
| SG&A | 36.2 % | 37.1 % | 38.5 % | 36.2 % |
| Total operating expenses | 43.9 % | 37.8 % | 45.8 % | 40.7 % |
| Operating income/(loss) | (14.4)% | (5.3)% | (15.9)% | (6.2)% |
| *Adjusted operating income/(loss) (non-GAAP)(2)* | (12.7)% | (9.5)% | (14.0)% | (4.4)% |

*(1) Comparable store sales include sales from all stores that have been opened for 12 consecutive full fiscal months and Internet sales through jcp.com. Stores closed for an extended period are not included in comparable store sales calculations, while stores remodeled and minor expansions not requiring store closures remain in the calculations.*

*(2) See "Non-GAAP Financial Measures" below for a discussion of this non-GAAP measure and reconciliation to its most directly comparable GAAP financial measure and further information on its uses and limitations.*

***Non-GAAP Financial Measures***

We report our financial information in accordance with generally accepted accounting principles in the United States (GAAP). However, we present certain financial measures and ratios identified as non-GAAP under the rules of the Securities and Exchange Commission (SEC) to assess our results. We believe the presentation of these non-GAAP financial measures and ratios is useful in order to better understand our financial performance as well as to facilitate the comparison of our results to the results of our peer companies. In addition, management uses these non-GAAP financial measures and ratios to assess the results of our operations. It is important to view non-GAAP financial measures in addition to, rather than as a substitute for, those measures and ratios prepared in accordance with GAAP. We have provided reconciliations of the most directly comparable GAAP measures to our non-GAAP financial measures presented.

The following non-GAAP financial measures are adjusted to exclude the impact of markdowns related to the alignment of inventory with our 2012 strategy, restructuring and management transition charges, the impact of our Primary Pension Plan expense, the loss on extinguishment of debt and the net gain on the sale or redemption of non-operating assets. Unlike other operating expenses, markdowns related to the alignment of inventory with our 2012 strategy, restructuring and management transition charges, loss on extinguishment of debt and the net gain on the sale or redemption of non-operating assets are not directly related to our ongoing core business operations. Primary Pension Plan expense is determined using numerous complex assumptions about changes in pension assets and liabilities that are subject to factors beyond our control, such as market volatility. Accordingly, we eliminate our Primary Pension Plan expense in its entirety as we view all components of net periodic benefit expense as a single, net amount, consistent with its presentation in our unaudited Interim Consolidated Financial Statements. We believe it is useful for investors to understand the impact of markdowns related to the alignment of inventory with our 2012 strategy, restructuring and management transition charges, the impact of our Primary Pension Plan expense, the loss on extinguishment of debt and the net gain on the sale or redemption of non-operating assets on our financial results and therefore are presenting the following non-GAAP financial measures: (1) adjusted operating income/(loss); (2) adjusted net income/(loss); and (3) adjusted diluted EPS.

*Adjusted Operating Income/(Loss).* The following table reconciles operating income/(loss), the most directly comparable GAAP financial measure, to adjusted operating income/(loss), a non-GAAP financial measure:

| | **Three Months Ended** | | **Nine Months Ended** | |
|---|---|---|---|---|
| *($ in millions)* | **November 2, 2013** | **October 27, 2012** | **November 2, 2013** | **October 27, 2012** |
| Operating income/(loss) (GAAP) | $ (401) | $ (156) | $ (1,282) | $ (565) |
| As a percent of sales | (14.4)% | (5.3)% | (15.9)% | (6.2)% |
| Add: markdowns - inventory strategy alignment | — | — | — | 155 |
| Add: restructuring and management transition charges | 46 | 34 | 165 | 269 |
| Add: primary pension plan expense | 25 | 42 | 75 | 139 |
| Less: net gain on sale or redemption of non-operating assets | (24) | (197) | (86) | (397) |
| *Adjusted operating income/(loss) (non-GAAP)* | $ (354) | $ (277) | $ (1,128) | $ (399) |
| *As a percent of sales* | (12.7)% | (9.5)% | (14.0)% | (4.4)% |

*Adjusted Net Income/(Loss) and Adjusted Diluted EPS.* The following table reconciles net income/(loss) and diluted EPS, the most directly comparable GAAP financial measures, to adjusted net income/(loss) and adjusted diluted EPS, non-GAAP financial measures:

| | **Three Months Ended** | | **Nine Months Ended** | |
|---|---|---|---|---|
| *($ in millions, except per share data)* | **November 2, 2013** | **October 27, 2012** | **November 2, 2013** | **October 27, 2012** |
| Net income/(loss) (GAAP) | $ (489) | $ (123) | $ (1,423) | $ (433) |
| Diluted EPS (GAAP) | $ (1.94) | $ (0.56) | $ (6.17) | $ (1.98) |
| Add: markdowns - inventory strategy alignment, net of tax of $-, $-, $- and $60 | — | — | — | 95 (1) |
| Add: restructuring and management transition charges, net of tax of $-, $13, $28 and $104 | 46 (2) | 21 (1) | 137 (3) | 165 (1) |
| Add: primary pension plan expense, net of tax of $15, $16, $41 and $54 | 10 (4) | 26 (1) | 34 (4) | 85 (1) |
| Add: loss on extinguishment of debt, net of tax of $-, $-, $- and $- | — | — | 114 (2) | — |
| Less: net gain on sale or redemption of non-operating assets, net of tax of $-, $70, $1 and $146 | (24) (5) | (127) (6) | (85) (5) | (251) (6) |
| *Adjusted net income/(loss) (non-GAAP)* | $ (457) | $ (203) | $ (1,223) | $ (339) |
| *Adjusted diluted EPS (non-GAAP)* | $ (1.81) | $ (0.93) | $ (5.30) | $ (1.55) |

Table of Contents

(1) *Tax effect was calculated using the Company's statutory rate of 38.82%.*
(2) *Reflects no tax effect due to the impact of the Company's tax valuation allowance.*
(3) *Tax effect for the three months ended May 4, 2013 was calculated using the Company's statutory rate of 38.82%. The six months ended November 2, 2013 reflects no tax effect due to the impact of the Company's tax valuation allowance.*
(4) *Tax benefit for the three and six months ended November 2, 2013 is in accordance with the requirement that the Company's net zero tax provision be allocated between its operating loss and accumulated other comprehensive income. For the three months ended May 4, 2013, tax effect was calculated using the Company's statutory rate of 38.82%.*
(5) *Tax effect represents state taxes payable in separately filing states related to the sale of the non-operating assets.*
(6) *Tax effect was calculated using the effective tax rate for the transactions.*

***Total Net Sales***

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| *($ in millions)* | **November 2, 2013** | **October 27, 2012** | **November 2, 2013** | **October 27, 2012** |
| Total net sales | $ 2,779 | $ 2,927 | $ 8,077 | $ 9,101 |
| Sales percent increase/(decrease): | | | | |
| Total net sales | (5.1)% | (26.6)% | (11.3)% | (23.1)% |
| Comparable store sales | (4.8)% | (26.1)% | (11.2)% | (22.3)% |

Total net sales decreased $148 million in the third quarter of 2013 compared to the third quarter of 2012. For the first nine months of 2013, total net sales decreased $1,024 million from the same period last year. The following table provides the components of the net sales decrease:

| | Three Months Ended | Nine Months Ended |
|---|---|---|
| *($ in millions)* | **November 2, 2013** | **November 2, 2013** |
| Comparable store sales increase/(decrease) | $ (139) | $ (1,017) |
| New and closed stores, net | (9) | (7) |
| Total net sales increase/(decrease) | $ (148) | $ (1,024) |

**Store Count**

The following table compares the number of stores and gross selling space for the three and nine months ended November 2, 2013 and October 27, 2012:

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | **November 2, 2013** | **October 27, 2012** | **November 2, 2013** | **October 27, 2012** |
| **jcpenney department stores** | | | | |
| Beginning of period | 1,095 | 1,101 | 1,104 | 1,102 |
| Stores opened | — | 7 | — | 9 |
| Closed stores | — | (3) | (9) | (6) |
| End of period(1) | 1,095 | 1,105 | 1,095 | 1,105 |
| **The Foundry Big and Tall Supply Co.(2)** | 10 | 10 | 10 | 10 |

(1) *Gross selling space was 111 million square feet as of November 2, 2013 and and 112 million square feet as of October 27, 2012.*
(2) *Gross selling space was 51 thousand square feet as of November 2, 2013 and October 27, 2012.*

In the third quarter of 2013, comparable store sales decreased 4.8% and Internet sales increased 24.5% to $266 million, with comparable store sales improving sequentially. Total net sales decreased 5.1% to $2,779 million compared with $2,927 million in last year's third quarter. For the first nine months of 2013, comparable store sales decreased 11.2% while comparable stores sales in last year's first nine months decreased 22.3%. Internet sales decreased 1.0%, to $698 million. Total net sales decreased 11.3% to $8,077 million compared with $9,101 million last year. The decline in sales is primarily related to the change in our pricing strategy at the beginning of 2012 that focused on everyday low prices and substantially eliminated promotional activities. During the first quarter of 2013, we began the process of returning the majority of our business to a promotional model. Internet sales experienced an increase during the quarter as compared to our stores primarily as a result of better in-stock merchandise positions, improvements in site performance and a favorable response to our promotional activity.

Based on a sample of our mall and off-mall stores, our store traffic decreased and conversion rate increased in the quarter compared to the third quarter last year. The number of store transactions and the total number of units decreased while the average number of units per transaction increased in the quarter as compared to the prior year corresponding period. All geographic regions and merchandise divisions experienced sales declines for the third quarter of 2013 compared to the prior year corresponding period. During the third quarter, the best performing divisions were women's apparel, women's accessories, including Sephora, men's apparel and jewelry.

The 2012 strategy emphasized brands in a shops presentation and introduced new merchandise brands. This re-merchandising effort has not resonated well with our customers so we are editing our existing merchandise assortments and undertaking several merchandise initiatives to make assortments more compelling to customers and to reintroduce some of our private brands. The largest implementation of the prior strategy was in the home department. These changes also did not resonate with our customers. As a result, we are making adjustments to our home merchandise assortments to present a better balance between traditional and modern home furnishings, a more balanced selection of good, better and best price points across key items, and merchandise arranged by category rather than brand.

***Gross Margin***

Gross margin for the third quarter of 2013 was $819 million, a decrease of $133 million compared to $952 million in the third quarter of 2012. Gross margin as a percentage of sales in the third quarter of 2013 was 29.5% compared to 32.5% in the third quarter of 2012. The 300 basis point decrease resulted from the following:

- higher levels of clearance units sold at lower margins, including additional markdowns taken to sell through inventory associated with our previous strategy, as well as our transition back to a promotional pricing strategy as compared to last year’s strategy (-364 basis points);
- lower levels of markdown accruals and inventory reserves (+95 basis points);
- re-ticketing costs as a result of moving back to a promotional strategy on selected merchandise (-16 basis points);
- increased vendor cost concessions (+14 basis points); and
- net change in other miscellaneous items, including the impact of shrinkage (-29 basis points).

Gross margin for the nine months ended November 2, 2013 was $2,418 million, a decrease of $724 million compared to $3,142 million for the nine months ended October 27, 2012. Gross margin as a percentage of sales for the nine months ended November 2, 2013 was 29.9% compared to 34.5% for the nine months ended October 27, 2012. The 460 basis point decrease resulted from the following:

- higher levels of clearance units sold at lower margins, as well as our transition back to a promotional pricing strategy compared to last year’s strategy (-400 basis points);
- re-ticketing costs as a result of moving back to a promotional strategy on selected merchandise (-39 basis points);
- reduced vendor cost concessions (-10 basis points); and
- net change in other miscellaneous items, including the impact of shrinkage (-11 basis points).

***SG&A Expenses***

For the three months ended November 2, 2013, SG&A expenses were $81 million lower compared to the three months ended October 27, 2012. As a percent of sales, SG&A expenses decreased to 36.2% compared to 37.1% in the third quarter of 2012. The net $81 million decrease primarily resulted from the following:

- lower advertising expenses (-$22 million);
- savings from lower utilities (-$15 million);
- savings from salaries and related benefits (-$13 million);
- higher income from the jcpenney private label credit card activities, which is recorded as a reduction of our SG&A expenses (-$7 million); and
- net decrease in other miscellaneous items (-$23 million).

For the nine months ended November 2, 2013, SG&A expenses were $187 million lower compared to the nine months ended October 27, 2012. As a percent of sales, SG&A expenses increased to 38.5% compared to 36.2% in the third quarter of 2012, as we were not able to leverage our expense reductions against lower sales. The net $187 million decrease primarily resulted from the following:

- savings from salaries and related benefits (-$48 million);
- savings from lower utilities (-$45 million);
- higher income from the jcpenney private label credit card activities, which is recorded as a reduction of our SG&A expenses (-$44 million);
- lower advertising expenses (-$22 million);
- savings from general store expense, support costs and rent (-$10 million); and
- net decrease in other miscellaneous items (-$18 million).

***Pension Expense***

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| *($ in millions)* | November 2, 2013 | October 27, 2012 | November 2, 2013 | October 27, 2012 |
| Primary Pension Plan | $ 25 | $ 42 | $ 75 | $ 139 |
| Supplemental pension plans | 9 | 9 | 27 | 28 |
| Total pension expense | $ 34 | $ 51 | $ 102 | $ 167 |

Total pension expense, which consists of our Primary Pension Plan expense and our supplemental pension plans expense, is based on our 2012 year-end measurement of pension plan assets and benefit obligations. Primary Pension Plan expense for the period decreased $17 million, to $25 million compared with $42 million in the third quarter of 2012. The decrease in Primary Pension Plan expense for 2013 is a result of lower amortization of our actuarial loss due to certain lump-sum settlements in 2012, lower service cost due to a decrease in the number of participants accruing benefits and strong asset performance in 2012. These decreases were partially offset by an approximately 60 basis point decrease in our discount rate and a 50 basis point decrease in our assumed expected return on assets. During the three months ended November 2, 2013 and October 27, 2012, supplemental pension plans expense was $9 million and $9 million, respectively. For the first nine months of 2013, our Primary Pension Plan expense decreased $64 million to $75 million and our supplemental pension plans expense decreased $1 million to $27 million.

***Depreciation and Amortization Expense***

Depreciation and amortization expense in the third quarter of 2013 increased $28 million to $161 million from $133 million for the comparable 2012 period. For the first nine months of 2013, depreciation and amortization increased $54 million to $440 million from $386 million last year. This increase is a result of our investment and replacement of store fixtures in connection with the implementation of our 2012 shops strategy. Depreciation and amortization expense for the three and nine months ended November 2, 2013 excludes $8 million and $37 million, respectively, of increased depreciation as a result of shortening the useful lives of store fixtures in our department stores that were replaced during 2013 with the build out of our home department and other attractions. For the three months ended October 27, 2012, depreciation and amortization excludes $7 million of increased depreciation. These amounts are included in the line Restructuring and management transition in the interim unaudited Interim Consolidated Statements of Operations.

***Restructuring and Management Transition***
The composition of restructuring and management transition charges was as follows:

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| *($ in millions)* | **November 2, 2013** | **October 27, 2012** | **November 2, 2013** | **October 27, 2012** |
| Supply chain | $ — | $ 3 | $ — | $ 19 |
| Home office and stores | (6) | 4 | 26 | 105 |
| Software and systems | — | — | — | 36 |
| Store fixtures | 10 | 18 | 55 | 60 |
| Management transition | 3 | 6 | 32 | 36 |
| Other | 39 | 3 | 52 | 13 |
| Total | $ 46 | $ 34 | $ 165 | $ 269 |

*Supply chain*
As a result of consolidating and streamlining our supply chain organization as part of a restructuring program that began in 2011, during the three and nine months ended October 27, 2012 we recorded charges of $3 million and $19 million, respectively, related to increased depreciation, termination benefits and unit closing costs. This restructuring activity was completed during the third quarter of 2012.

*Home office and stores*
During the three months ended November 2, 2013 and October 27, 2012, we recorded a $6 million credit and $4 million of net charges, respectively, associated with employee termination benefits for actions to reduce our store and home office expenses. The $6 million credit for the third quarter of 2013 resulted from termination benefits paid that were lower than expected primarily because employees found other positions within the Company and revisions were made to the restructuring plan. During the third quarter of 2012, when substantially all employee exits were completed, we recorded a net curtailment gain of $7 million (see Note 8). The net curtailment gain was more than offset by charges associated with employee termination benefits of $11 million. During the nine months ended November 2, 2013 and October 27, 2012, we recorded net charges of $26 million and $105 million, respectively, related to store and home office employee termination benefits.

*Software and systems*
During the nine months ended October 27, 2012, we recorded a charge of $36 million related to the disposal of software and systems that based on our evaluation no longer supported our then current strategy. Included in this amount is $3 million of consulting fees related to that evaluation.

*Store fixtures*
During the three months ended November 2, 2013, we recorded $2 million for the impairment of certain store fixtures related to our former shops strategy that were used in our prototype department store and $8 million of increased depreciation as a result of shortening the useful lives of fixtures in our department stores that were replaced during the first nine months of 2013. During the nine months ended November 2, 2013, we recorded $7 million of charges for the write-off of store fixtures related to the renovations in our home department and $37 million of increased depreciation as a result of shortening the useful lives of fixtures in our department stores that were replaced during the first nine months of 2013. In addition, during the nine months ended November 2, 2013, we recorded $11 million of charges for the impairment of certain store fixtures related to our former shops strategy that were used in our prototype department store.

During the three months ended October 27, 2012, we recorded $11 million of charges related to the removal of store fixtures in our department stores. In addition, we recorded $7 million of increased depreciation as a result of shortening the useful lives of fixtures in our department stores that were replaced throughout 2013 with the build out of additional shops. During the nine months ended October 27, 2012, we recorded charges of $60 million related to the write-off and increased depreciation for store fixtures that were replaced with new store attraction fixtures.

*Management transition*
During the three months ended November 2, 2013 and October 27, 2012, we implemented several changes within our management leadership team that resulted in management transition costs of $3 million and $6 million, respectively, for both incoming and outgoing members of management. During the nine months ended November 2, 2013 and October 27, 2012, we recorded management transition charges of $32 million and $36 million, respectively.

Table of Contents

*Other*
During the three months ended November 2, 2013 and October 27, 2012, we recorded $39 million and $3 million, respectively, of miscellaneous restructuring charges. During the nine months ended November 2, 2013 and October 27, 2012, we recorded $52 million and $13 million, respectively, of miscellaneous restructuring charges. The charges during 2013 were primarily related to contract termination costs and other costs associated with our previous marketing and shops strategy, including a non-cash charge of $36 million during the third quarter relating to the return of shares of Martha Stewart Living Omnimedia Inc. previously acquired by the Company, which was accounted for as a cost investment (Note 5). The charges in the first quarter of 2012 were primarily related to the exit of our specialty websites CLAD™ and Gifting Grace™, and the charges in the second quarter of 2012 were primarily related to costs associated with the closing of our Pittsburgh, Pennsylvania customer call center.

***Real Estate and Other, Net***
Real estate and other consists of ongoing operating income from our real estate subsidiaries whose investments are in real estate investment trusts (REITs), as well as investments in joint ventures that own regional mall properties. Real estate and other also includes net gains from the sale of facilities and equipment that are no longer used in operations, asset impairments and other non-operating charges and credits. The composition of real estate and other, net was as follows:

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| *($ in millions)* | November 2, 2013 | October 27, 2012 | November 2, 2013 | October 27, 2012 |
| Gain on sale or redemption of non-operating assets, net: | | | | |
| Redemption of SPG REIT units | $ — | $ — | $ — | $ (200) |
| Sale of CBL & Associates Properties, Inc. (CBL) REIT shares | — | (15) | — | (15) |
| Sale of leveraged leases | — | (28) | — | (28) |
| Sale of investment in joint venture | (23) | (151) | (85) | (151) |
| Sale of building | (1) | (3) | (1) | (3) |
| Net gain on sale or redemption of non-operating assets | (24) | (197) | (86) | (397) |
| Dividend income from REITs | — | (1) | — | (6) |
| Investment income from joint ventures | (1) | (3) | (5) | (9) |
| Gain on sale of operating assets | — | — | (18) | — |
| Other | (2) | 4 | (8) | — |
| Real estate and other (income)/expense, net | $ (27) | $ (197) | $ (117) | $ (412) |

*REIT Assets*
On July 20, 2012, SPG redeemed two million of our REIT units at a price of $124.00 per unit for a total redemption price of $246 million, net of fees. As of the market close on July 19, 2012, the SPG REIT units had a fair market value of $158.13 per unit. In connection with the redemption, we realized a net gain of $200 million determined using the first-in-first-out method for determining the cost of REIT units sold. Following the transaction, we continue to hold approximately 205,000 REIT units in SPG.

On October 23, 2012, we sold all of our CBL REIT shares at a price of $21.35 per share for a total price of $40 million, net of fees. In connection with the sale, we realized a net gain of $15 million.

*Leveraged Leases*
During the third quarter of 2012, we sold all of our leveraged lease assets for $146 million, net of fees. The investments in the leveraged lease assets as of the dates of the sales were $118 million and we recorded a net gain of $28 million.

*Joint Venture*
During the third quarter of 2013, we sold our investment in three joint ventures for $32 million, resulting in a net gain of $23 million. During the second quarter of 2013, we sold our investment in a joint venture for $55 million, resulting in a net gain of $62 million. The gain exceeded the cash proceeds as a result of distributions of cash related to refinancing transactions in prior periods that were recorded as net reductions in the carrying amount of the investment. The net book value of the joint venture investment was a negative $7 million and was included in Other liabilities in the unaudited Interim Consolidated Balance Sheets.

During the third quarter of 2012, we sold our investments in four joint ventures for $90 million, resulting in net gains totaling $151 million. The gain exceeded the cash proceeds as a result of distributions of cash related to refinancing transactions in prior periods that were recorded as net reductions in the carrying amount of the investments. The cumulative net book value of the joint venture investments was a negative $61 million.

*Other Non-Operating Assets*
During the third quarter of 2013, we sold approximately 10 acres of excess land for net proceeds and a gain of $1 million. During the third quarter of 2012, we sold a building used in our former drugstore operations for net proceeds and a gain of $3 million.

*Operating Assets*
During the first quarter of 2013, we sold our leasehold interest of a former department store location with a net book value of $2 million for net proceeds of $18 million, realizing a gain of $16 million. During the second quarter of 2013, we sold two properties, realizing a gain of $2 million.

***Operating Income/(Loss)***
For the third quarter of 2013, we reported an operating loss of $401 million compared to an operating loss of $156 million in the prior year corresponding period. Excluding restructuring and management transition charges, the impact of our Primary Pension Plan expense and the net gain on the sale or redemption of non-operating assets, adjusted operating income/(loss) (non-GAAP) decreased $77 million to an adjusted operating loss of $354 million for the third quarter compared to an adjusted operating loss of $277 million for the prior year corresponding period.

For the nine months ended November 2, 2013, we reported an operating loss of $1,282 million compared to an operating loss of $565 million in the prior year corresponding period. Excluding the impact of markdowns related the alignment of inventory with our 2012 strategy, restructuring and management transition charges, the impact of our Primary Pension Plan expense and the net gain on the sale or redemption of non-operating assets, adjusted operating income/(loss) (non-GAAP) decreased $729 million to an adjusted operating loss of $1,128 million for the nine months ended November 2, 2013 compared to an adjusted operating loss of $399 million for the prior year corresponding period.

***Loss on Extinguishment of Debt***
During the second quarter of 2013, we paid $355 million to complete a cash tender offer and consent solicitation with respect to substantially all of our outstanding 7.125% Debentures due 2023. In doing so, we also recognized a loss on extinguishment of debt of $114 million, which included the premium paid over face value of the debentures of $110 million, reacquisition costs of $2 million and the write-off of unamortized debt issuance costs of $2 million.

***Net Interest Expense***
Net interest expense for the third quarters of 2013 and 2012 was $99 million and $55 million, respectively. For the nine months ended November 2, 2013, net interest expense was $255 million compared to $169 million in the prior year corresponding period. The increase in net interest expense for the periods is primarily related to the increased interest expense associated with the borrowings under our revolving credit facility and the $2.25 billion five-year senior secured term loan that was entered into on May 22, 2013.

***Income Taxes***
The income tax benefit for the three months ended November 2, 2013 was $11 million as compared to $88 million for the three months ended October 27, 2012. The effective tax rate for the three months ended November 2, 2013 was (2.2)% as compared to (41.7)% for the three months ended October 27, 2012. The income tax benefit for the nine months ended November 2, 2013 was $228 million compared to $301 million for the nine months ended October 27, 2012. The effective tax rate for the nine months ended November 2, 2013 was (13.8)% compared to (41.0)% for the nine months ended October 27, 2012. Our effective tax rate for the three and nine months ended November 2, 2013 was negatively impacted by increases to the tax valuation allowance for deferred tax assets of $184 million and $416 million, respectively.

In assessing the need for the valuation allowance, we considered both positive and negative evidence related to the likelihood of realization of the deferred tax assets. As a result of our assessment, we concluded that, beginning in the second quarter of 2013, our estimate of the realization of deferred tax assets would be based solely on the future reversals of existing taxable temporary differences and tax planning strategies that we would make use of to accelerate taxable income to utilize expiring carryforwards. Accordingly, in the third quarter of 2013, the valuation allowance was increased to offset the net deferred tax assets created in the quarter relating primarily to the increase in net operating loss carryforwards. A valuation allowance of $482 million has been recorded against our deferred tax assets as of November 2, 2013. This resulted in an increase to the valuation allowance during the quarter ended November, 2013 of $184 million, of which $154 million relates to the increase in the deferred tax assets created for federal net operating loss carryforwards and $30 million relates to deferred tax assets created for state net operating loss carryforwards.

As a result of the valuation allowance, for the three months ended November 2, 2013, we recorded a net tax benefit of only $11 million. The net tax benefit consists of a $16 million non-cash benefit relating to other comprehensive income, offset by state and foreign tax expenses of $3 million and $2 million of tax expense on the amortization of certain indefinite-lived intangible assets that were not available to offset existing deferred taxes. In accordance with accounting standards, we are required to allocate a portion of our tax provision between operating losses and accumulated other comprehensive income. Application of this guidance required the recognition of a non-cash income tax benefit of $16 million in operating results, offset by a $16 million charge to other comprehensive income for the quarter.

## Liquidity and Capital Resources

**Overview**

Our primary sources of liquidity are cash generated from operations, available cash and cash equivalents and access to our revolving credit facility and the capital markets. As of the end of the third quarter of 2013, we had $1,227 million of cash and cash equivalents. On February 8, 2013, we entered into an amended and restated revolving credit facility (2013 Credit Facility) in an amount up to $1,850 million. During the first quarter of 2013, we borrowed $850 million under our 2013 Credit Facility of which $200 million was repaid during the third quarter of 2013. As of the end of the third quarter of 2013, we had $666 million available for future borrowing, of which $481 million is currently accessible due to the limitation of the fixed charge coverage ratio. In order to further enhance our liquidity position, on May 22, 2013, we closed on a $2.25 billion five-year senior secured term loan that is guaranteed by J. C. Penney Company, Inc. and certain subsidiaries of JCP, and is secured by mortgages on certain real estate of JCP and the guarantors, in addition to substantially all other assets of JCP and the guarantors. In addition, on October 1, 2013, we issued 84 million shares of common stock with a par value of $0.50 per share for net proceeds of $786 million. As of the end of the third quarter of 2013, our total available liquidity was approximately$1.7 billion. The future success of our business will depend on our ability to generate positive free cash flow (non-GAAP).

The following table provides a summary of our key components and ratios of financial condition and liquidity:

| | Nine Months Ended | |
|---|---|---|
| *($ in millions)* | **November 2, 2013** | **October 27, 2012** |
| Cash and cash equivalents | $ 1,227 | $ 525 |
| Merchandise inventory | 3,747 | 3,362 |
| Property and equipment, net | 5,753 | 5,493 |
| Total debt[(1)] | 5,612 | 2,965 |
| Stockholders' equity | 2,647 | 3,502 |
| Total capital | 8,259 | 6,467 |
| Maximum capacity under our credit agreement | 1,850 | 1,500 |
| Short-term borrowings under credit agreement | 650 | — |
| Cash flow from operating activities | (2,197) | (655) |
| Free cash flow (non-GAAP)[(2)] | (2,992) | (1,321) |
| Capital expenditures[(3)] | 814 | 580 |
| Dividends paid | — | 86 |
| Ratios: | | |
| Total debt-to-total capital[(4)] | 68% | 46% |
| Cash-to-total debt[(5)] | 22% | 18% |

(1) *Total debt includes long-term debt, including current maturities, capital leases, note payable and our current borrowing under our 2013 Credit Facility.*

(2) *See "Free Cash Flow" below for a reconciliation of this non-GAAP financial measure to its most directly comparable GAAP financial measure and further information on its uses and limitations.*

(3) *As of the end of the third quarters of 2013 and 2012, we had accrued capital expenditures of $102 million and $181 million, respectively.*

(4) *Total debt divided by total capitalization.*

(5) *Cash and cash equivalents divided by total debt.*

**Free Cash Flow (Non-GAAP)**

Free cash flow is a key financial measure of our ability to generate additional cash from operating our business and in evaluating our financial performance. We define free cash flow as cash flow from operating activities, less capital expenditures and dividends paid, plus the proceeds from the sale of operating assets. Free cash flow is a relevant indicator of our ability to repay maturing debt, revise our dividend policy or fund other uses of capital that we believe will enhance stockholder value. Free cash flow is considered a non-GAAP financial measure under the rules of the SEC. Free cash flow is limited and does not represent remaining cash flow available for discretionary expenditures due to the fact that the measure does not deduct payments required for debt maturities, pay-down of off-balance sheet pension debt, and other obligations or payments made for business acquisitions. Therefore, it is important to view free cash flow in addition to, rather than as a substitute for, our entire statement of cash flows and those measures prepared in accordance with GAAP.

The following table reconciles net cash provided by/(used in) operating activities, the most directly comparable GAAP financial measure, to free cash flow, a non-GAAP financial measure:

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| *($ in millions)* | **November 2, 2013** | **October 27, 2012** | **November 2, 2013** | **October 27, 2012** |
| Net cash provided by/(used in) operating activities (GAAP) | $ (737) | $ (48) | $ (2,197) | $ (655) |
| Add: | | | | |
| Proceeds from sale of operating assets | — | — | 19 | — |
| Less: | | | | |
| Capital expenditures(1) | (161) | (341) | (814) | (580) |
| Dividends paid, common | — | — | — | (86) |
| Free cash flow (non-GAAP) | $ (898) | $ (389) | $ (2,992) | $ (1,321) |

*(1) As of the end of the third quarters of 2013 and 2012, we had accrued capital expenditures of $102 million and $181 million, respectively.*

Free cash flow for the three months ended November 2, 2013 decreased $509 million to an outflow of $898 million compared to an outflow of $389 million in the same period last year. Free cash flow for the nine months ended November 2, 2013 decreased $1,671 million to an outflow of $2,992 million compared to an outflow of $1,321 million in the same period last year. The decrease was primarily a result of the decline in sales and resulting use of cash from operating activities during the period, increase in our inventory levels in preparation for the holiday season, as well as an increase in capital expenditures compared to last year. These decreases were partially offset by the discontinuation of our quarterly dividend of $0.20 per share on May 15, 2012.

**Operating Activities**

While a significant portion of our sales, profit and operating cash flows have historically been realized in the fourth quarter, our quarterly results of operations may fluctuate significantly as a result of many factors, including seasonal fluctuations in customer demand, product offerings, inventory levels and promotional activity.

For the three months ended November 2, 2013, cash flow from operating activities was an outflow of $737 million, a decrease of $689 million compared to an outflow of $48 million during the same period last year. Cash flow from operating activities for the nine months ended November 2, 2013, decreased $1,542 million to an outflow of $2,197 million compared to an outflow of $655 million for the same period last year. Our net loss for the nine months ended November 2, 2013 of $1,423 million includes significant expenses and charges that do not impact operating cash flow including depreciation and amortization, restructuring and management transition charges, pension expense and the loss on extinguishment of debt. The overall increased cash outflow from operations for the nine months ended November 2, 2013 related to a larger net loss for the period and the increase in inventory slightly offset by an increase in the corresponding merchandise payable. In addition, during the three months ended November 2, 2013, we received a $36 million payment from a landlord to terminate an existing lease prior to its original expiration date.

Merchandise inventory increased $385 million to $3,747 million, or 11.5%, as of the end of the third quarter of 2013 compared to $3,362 million as of the end of the third quarter last year. Compared to the end of fiscal year 2012, merchandise inventory increased $1,406 million, reflecting re-stocking of basics and private branded categories during the quarter in anticipation of the holiday seasons, as well as to replenish low inventory levels.

**Investing Activities**
Investing activities for the nine months ended November 2, 2013 was a cash outflow of $707 million compared to an outflow of $64 million for the same period in 2012. The increase in the cash outflow from investing activities was primarily a result of increased capital expenditures and a decrease in proceeds from the sale or redemption of non-operating and operating assets.

Cash capital expenditures were $161 million and $814 million for the three and nine months ended November 2, 2013, respectively. In addition, as of the end of the third quarter of 2013, we also had $102 million of accrued capital expenditures. The capital expenditures for the first nine months of 2013 related primarily to the opening of the women's and kid's Joe Fresh® attractions in nearly 700 of our department stores, the opening of Disney® and giggleBaby™ in approximately 560 stores and renovations in our home department in approximately 500 of our department stores. During the three and nine months ended November 2, 2013, we opened 30 and 60, respectively, Sephora inside jcpenney stores.

Cash capital expenditures were $341 million and $580 million for the three and nine months ended October 27, 2012, respectively. In addition, as of the end of the third quarter of 2012, we also had $181 million of accrued capital expenditures. Capital expenditures during the third quarter of 2012 included furniture and fixtures relating to men's and women's jcp™ shops, women's Liz Claiborne® shops and Men's Izod® shops that launched on September 1, 2012. Capital expenditures during the second quarter of 2012 included furniture and fixtures relating to men's and women's The Original Arizona Jean Co.® shops and Levi's® shops that launched on August 1, 2012. During the nine months ended October 27, 2012, we opened 78 Sephora inside jcpenney stores and seven new department stores.

During the first nine months of 2013, we sold our investments in four real estate joint ventures, a leasehold interest in a former department store location and three properties for a total of $107 million in net proceeds.

In the third quarter of 2012, we received net proceeds of $279 million from the sale of non-operating assets including REIT shares, leveraged lease assets, investments in real estate joint ventures and a building used in our former drugstore operations. In the second quarter of 2012, SPG redeemed two million of our SPG REIT units at a cash price of $124 per unit for a total price of $246 million, net of fees.

We anticipate full year 2013 capital expenditures to be approximately $1.0 billion. Capital expenditures for the remainder of 2013 include accrued expenditures of $102 million at the end of the third quarter. We anticipate full year 2014 capital expenditures to be approximately $300 million.

**Financing Activities**
Financing activities for the nine months ended November 2, 2013 were an inflow of $3,201 million compared to an outflow of $263 million for the same period last year. During the third quarter of 2013, we issued 84 million shares of common stock with a par value of $0.50 per share for net proceeds of $786 million. During the second quarter of 2013, we received net proceeds of $2.18 billion from our senior secured term loan facility and completed the cash tender offer and consent solicitation with respect to our outstanding 7.125% Debentures due 2023 for $355 million. During the first quarter of 2013, we borrowed $850 million under our revolving credit facility of which $200 million was repaid during the third quarter of 2013.

On August 1, 2012, we repaid at maturity $230 million principal amount of 9% Notes Due 2012. Additionally, we made capital lease and financing payments totaling $13 million. As authorized by the Board, we paid quarterly dividends of $0.20 per share during the first half of 2012. On May 15, 2012, we announced that we had discontinued the quarterly $0.20 per share dividend, resulting in approximately $175 million in annual cash savings.

**Cash Flow Outlook**
During the first nine months of 2013, we enhanced our liquidity through the following transactions:

- During the first quarter of 2013, we borrowed $850 million under our revolving credit facility of which $200 million was repaid during the third quarter of 2013;
- On May 22, 2013, we closed on a $2.25 billion five-year senior secured term loan; and
- During the third quarter of 2013, we issued 84 million shares of common stock with a par value of $0.50 per share for net proceeds of $786 million.

For the remainder of 2013, we believe that our existing cash and cash equivalents will be adequate to fund our capital expenditures and working capital needs.

Our cash flows may be impacted by many factors including the economic environment, consumer confidence, competitive conditions in the retail industry and the success of our strategies.

**2013 Revolving Credit Facility**
On February 8, 2013, J. C. Penney Company, Inc., JCP and J. C. Penney Purchasing Corporation (Purchasing) entered into an amended and restated revolving credit agreement in the amount up to $1,850 million (2013 Credit Facility), which replaces the Company's prior credit agreement entered into in January 2012, with largely the same syndicate of lenders under the previous agreement, with JPMorgan Chase Bank, N.A., as administrative agent. The 2013 Credit Facility matures on April 29, 2016, increases the letter of credit sublimit to $750 million and provides an accordion feature that could potentially increase the size of the facility by an additional amount not to exceed $400 million.

The 2013 Credit Facility is an asset-based revolving credit facility and is secured by a perfected first-priority security interest in substantially all of our eligible credit card receivables, accounts receivable and inventory. The 2013 Credit Facility is available for general corporate purposes, including the issuance of letters of credit. Pricing under the 2013 Credit Facility is tiered based on JCP's senior unsecured long-term credit ratings issued by Moody's Investors Service, Inc. and Standard & Poor's Ratings Services. JCP's obligations under the 2013 Credit Facility are guaranteed by J. C. Penney Company, Inc.

Availability under the 2013 Credit Facility is limited to a borrowing base which allows us to borrow up to 85% of eligible accounts receivable, plus 90% of eligible credit card receivables, plus 85% of the liquidation value of our inventory, net of certain reserves. Letters of credit reduce the amount available to borrow by their face value. In the event that availability under the 2013 Credit Facility is at any time less than the greater of (1) $125 million or (2) 10% of the lesser of the total facility or the borrowing base then in effect, for a period of at least 30 days, the Company will be subject to a fixed charge coverage ratio covenant of 1.0 to 1.0 which is calculated as of the last day of the quarter and measured on a trailing four-quarter basis.

On April 12, 2013, we borrowed $850 million under the 2013 Credit Facility of which $200 million was repaid during the third quarter of 2013. As of the end of the third quarter of 2013, $650 million of the borrowing remains outstanding. The borrowing bears interest at a rate of LIBOR plus 3.0%. As of the end of the third quarter of 2013, we had $534 million in standby and import letters of credit outstanding under the 2013 Credit Facility, the majority of which are standby letters of credit that support our merchandise initiatives and workers' compensation. None of the standby or import letters of credit have been drawn on. As of the end of the third quarter of 2013, we had $666 million available for future borrowing, of which $481 million is currently accessible due to the limitation of the fixed charge coverage ratio.

**Credit Ratings**
Our credit ratings and outlook as of December 2, 2013 were as follows:

| | Corporate | Long-Term Debt | Outlook |
|---|---|---|---|
| Fitch Ratings | CCC | CCC | Negative |
| Moody's Investors Service, Inc. | Caa1 | Caa1 | Negative |
| Standard & Poor's Ratings Services | CCC+ | CCC+ | Negative |

Credit rating agencies periodically review our capital structure and the quality and stability of our earnings. Rating agencies consider, among other things, changes in operating performance, comparable store sales, the economic environment, conditions in the retail industry, financial leverage and changes in our business strategy in their rating decisions. Downgrades to our long-term credit ratings could result in reduced access to the credit and capital markets and higher interest costs on future financings.

**Contractual Obligations and Commitments**
Aggregate information about our obligations and commitments to make future payments under contractual or contingent arrangements was disclosed in the 2012 Form 10-K. Our unrecorded contractual obligations related to merchandise have decreased approximately 21% since year end primarily due to the seasonality of our business and updates to our supplier base in the ordinary course of business.

**Inflation**
Our business is affected by general economic conditions, including rising petroleum, energy and cotton prices. Over the past few years, the retail industry has experienced some inflationary cost increases. Inflation impacted our results of operations primarily during the first quarter of 2012. This increase was driven primarily by rising costs for cotton and petroleum based textiles for 2011 holiday and early 2012 spring goods. Beginning in the second quarter of 2012 and continuing through the end of the fiscal year, these pressures eased. During the first nine months of 2013, we did not experience inflationary cost increases, and we expect this trend to continue through the end of the year.

## Critical Accounting Policies

Management's discussion and analysis of our financial condition and results of operations is based upon our unaudited Interim consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and use judgments that affect reported amounts of assets, liabilities, revenues and expenses and related disclosures of contingent assets and liabilities. We base our estimates on historical experience and on other assumptions that are believed to be reasonable under the circumstances. On an ongoing basis, we evaluate estimates used, including those related to inventory valuation under the retail method, valuation of long-lived assets, estimation of reserves and valuation allowances specifically related to closed stores, insurance, income taxes, litigation and environmental contingencies and pension accounting. While actual results could differ from these estimates, we do not expect the differences, if any, to have a material effect on the unaudited Interim Consolidated Financial Statements.

There were no changes to our critical accounting policies during the nine months ended November 2, 2013. For a further discussion of the judgments we make in applying our accounting policies, see Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, in our 2012 Form 10-K.

We are providing the following disclosures regarding critical accounting estimates.

**Valuation of Deferred Tax Assets**

We account for income taxes using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recorded to reduce the carrying amounts of deferred tax assets unless it is more likely than not such assets will be realized.

In assessing the need for a valuation allowance, we consider both positive and negative evidence related to the likelihood of the realization of the deferred tax assets based on future events. Our accounting for deferred tax consequences represents our best estimate of those future events. If based on the weight of available evidence, it is more likely than not (defined as a likelihood of more than 50%) the deferred tax assets will not be realized, we record a valuation allowance. The weight given to both positive and negative evidence is commensurate with the extent to which the evidence may be objectively verified. As such, it is generally difficult for positive evidence regarding projected future taxable income, exclusive of reversing taxable temporary differences, to outweigh objective negative evidence of recent losses. Cumulative losses in recent years is a significant piece of negative evidence that is difficult to overcome in determining that a valuation allowance is not needed against deferred tax assets.

This assessment is completed on a taxing jurisdiction basis and takes into account several types of evidence, including the following:

- Nature, frequency, and severity of current and cumulative financial reporting losses. A pattern of recent losses is heavily weighted as a source of negative evidence. In certain circumstances, historical information may not be as relevant due to a change in circumstances.

- Sources of future taxable income. Future reversals of existing temporary differences are heavily weighted sources of objectively verifiable positive evidence. Projections of future taxable income, exclusive of reversing temporary differences, are a source of positive evidence only when the projections are combined with a history of recent profits and can be reasonably estimated. Otherwise, these projections are considered inherently subjective and generally will not be sufficient to overcome negative evidence that includes cumulative losses in recent years, particularly if the projected future taxable income is dependent on an anticipated turnaround to profitability that has not yet been achieved. In such cases, we generally give these projections of future taxable income no weight for the purposes of our valuation allowance assessment.

- Tax planning strategies. If necessary and available, tax-planning strategies would be implemented to accelerate taxable amounts to utilize expiring net operating loss carryforwards. These strategies would be a source of additional positive evidence and, depending on their nature, could be heavily weighted.

In the second quarter, our net deferred tax position, exclusive of any valuation allowance, changed from a net deferred tax liability to a net deferred tax asset. In our assessment of the need for a valuation allowance, we heavily weighted the negative evidence of cumulative losses in recent periods and the positive evidence of future reversals of existing temporary differences. Although a sizable portion of our losses in recent years were the result of charges incurred for restructuring and other special items, even without these charges we still would have incurred significant losses. Accordingly, we considered our pattern of recent losses to be relevant to our analysis. Considering this pattern of recent losses and the uncertainties associated with projected future taxable income exclusive of reversing temporary differences, we gave no weight to projections showing future U.S. taxable income for purposes of assessing the need for a valuation allowance. As a result of our assessment, we concluded that, beginning in the second quarter of 2013, our estimate of the realization of deferred tax assets would be based solely on future reversals of existing taxable temporary differences and tax planning strategies that we would make use of to accelerate taxable income to utilize expiring carryforwards. Accordingly, valuation allowances were recorded in the second and third quarters to offset most of the deferred tax assets created.

Future book pre-tax losses will require additional valuation allowances to offset the deferred tax assets created. A sustained period of profitability is required before we would change our need for a valuation allowance against our net deferred tax assets. Changes in our current estimates, due to unanticipated events or otherwise, could have a material impact on our financial condition and results of operations.

See Note 11 to the unaudited Interim Consolidated Financial Statements for more information regarding income taxes and also “Risk Factors-The Company’s ability to use net operating loss carry-forwards to offset future taxable income for U.S. federal income tax purposes may be limited.”

**Valuation of Long-Lived and Indefinite-Lived Assets**
In 2012, we introduced a transformational strategy to become America’s favorite store. We underwent tremendous change as we began shifting our business model from a promotional department store to a specialty department store. The 2012 strategy emphasized brands in a shops presentation and introduced new merchandise brands. This re-merchandising effort did not resonate with our customers and our 2012 and 2013 sales, operating profit and cash flows declined significantly. As a result, we are editing our existing merchandise assortments, undertaking several merchandise initiatives and reintroducing certain of our private brands to make our assortments more compelling to customers. In addition, during the first quarter of 2013, we began the process of returning the majority of our business to a promotional model. As we return the majority of our business to a promotional model and complete our merchandise initiatives, we expect our sales, operating profit and cash flows to improve in the future, where the fourth quarter typically generates a significant portion of our sales, profit and operating cash flows for the fiscal year. If, however, operating performance reflects an other than temporary decline, we may incur impairment charges in the future, which could be material to our results of operations.

*Long-Lived Assets*
We evaluate recoverability of long-lived assets, such as property and equipment, whenever events or changes in circumstances indicate that the carrying value may not be recoverable, such as historical operating losses or plans to close stores and dispose of or sell long-lived assets before the end of their previously estimated useful lives. Additionally, for store assets, in the fourth quarter of each fiscal year, we separately test the performance of individual stores, and underperforming stores are selected for further evaluation of the recoverability of the carrying amounts. If the evaluation, performed on an undiscounted cash flow basis, indicates that the carrying amount of the asset may not be recoverable, the potential impairment is measured as the excess of carrying value over the fair value of the impaired asset. The impairment calculation requires us to apply estimates for future cash flows and use judgments for qualitative factors such as local market conditions, operating environment, mall performance and other trends. We estimate fair value based on either a projected discounted cash flow method using a discount rate that is considered commensurate with the risk inherent in our current business model or appraised value, as appropriate.

*Indefinite-Lived Assets*
We assess the recoverability of indefinite-lived intangible assets at least annually during the fourth quarter of our fiscal year or whenever events or changes in circumstances indicate that the carrying amount of the indefinite-lived intangible asset may not be fully recoverable. Examples of events or changes in circumstances include, but are not limited to, a decrease in the market price of the asset, a history of cash flow losses related to the use of the asset or a significant adverse change in the extent or manner in which an asset is being used. Under GAAP, we have the option to first perform a qualitative assessment in our evaluation of our indefinite-lived intangible assets in order to determine whether the fair value of the indefinite-lived intangible asset is more likely than not impaired. If a qualitative analysis is performed, we test our indefinite lived intangible assets utilizing the relief from royalty method to determine the fair value of the asset. The relief from royalty method estimates our theoretical royalty savings from ownership of the intangible asset. Key assumptions used in this model include discount rates, royalty rates, growth rates, sales projections and terminal value rates. Discount rates, royalty rates, growth rates and sales projections are the assumptions most sensitive and susceptible to change as they require significant management

judgment. Discount rates used are similar to the rates estimated by the weighted average cost of capital considering any differences in company-specific risk factors. Royalty rates are established by management based on comparable trademark licensing agreements in the market. Operational management, considering industry and company-specific historical and projected data, develops growth rates and sales projections associated with each indefinite-lived intangible asset. Terminal value rate determination follows common methodology of capturing the present value of perpetual sales estimates beyond the last projected period assuming a constant weighted average cost of capital and long-term growth rates.

**Recently Issued Accounting Pronouncements**

Recently issued accounting pronouncements are discussed in Note 13 to the unaudited Interim Consolidated Financial Statements.

**Seasonality**

While a significant portion of our sales, profit and operating cash flows have historically been realized in the fiscal fourth quarter, our quarterly results of operations may fluctuate significantly as a result of many factors, including seasonal fluctuations in customer demand, product offerings, inventory levels and the impact of our strategies. The results of operations and cash flows for the nine months ended November 2, 2013 are not necessarily indicative of the results for future quarters or the entire year.

**Cautionary Statement Regarding Forward-Looking Statements**

This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, which reflect our current view of future events and financial performance. The words expect, plan, anticipate, believe, intend, should, will and similar expressions identify forward-looking statements. Any such forward-looking statements are subject to known and unknown risks and uncertainties that may cause our actual results to be materially different from planned or expected results.

These risks and uncertainties include, but are not limited to, general economic conditions, including inflation, recession, unemployment levels, consumer confidence and spending patterns, credit availability and debt levels, changes in store traffic trends, the cost of goods, more stringent or costly payment terms and/or the decision by a significant number of vendors not to sell us merchandise on a timely basis or at all, trade restrictions, the ability to monetize non-core assets on acceptable terms, the ability to implement our turnaround strategy, customer acceptance of our new strategies, our ability to attract, motivate and retain key executives and other associates, the impact of cost reduction initiatives, our ability to generate or maintain liquidity, implementation of new systems and platforms, changes in tariff, freight and shipping rates, changes in the cost of fuel and other energy and transportation costs, increases in wage and benefit costs, competition and retail industry consolidations, interest rate fluctuations, dollar and other currency valuations, the impact of weather conditions, risks associated with war, an act of terrorism or pandemic, the ability of the federal government to fund and conduct its operations, a systems failure and/or security breach that results in the theft, transfer or unauthorized disclosure of customer, employee or Company information and legal and regulatory proceedings. There can be no assurances that the Company will achieve expected results, and actual results may be materially less than expectations. Furthermore, the Company typically earns a disproportionate share of its operating income in the fourth quarter due to holiday buying patterns, and such buying patterns are difficult to forecast with certainty. While we believe that our assumptions are reasonable, we caution that it is impossible to predict the degree to which any such factors could cause actual results to differ materially from predicted results.

For additional discussion on risks and uncertainties, see Item 1A, Risk Factors, in this Quarterly Report on Form 10-Q. We intend the forward-looking statements in this Quarterly Report on Form 10-Q to speak only as of the date of this report and do not undertake to update or revise these projections as more information becomes available.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

We are exposed to market risks in the normal course of business due to changes in interest rates. Our market risks related to interest rates at November 2, 2013 are similar to those disclosed in the 2012 Form 10-K.

**Item 4. Controls and Procedures**

Based on their evaluation of our disclosure controls and procedures (as defined in Rules 13a-15 and 15d-15 under the Securities Exchange Act of 1934 (the Exchange Act)) as of the end of the period covered by this Quarterly Report on Form 10-Q, our principal executive officer and principal financial officer concluded our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and is accumulated and communicated to management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. There were no changes in our internal control over financial reporting during the third quarter ended November 2, 2013, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## Part II. Other Information

### Item 1. Legal Proceedings

***Macy's Litigation***
On August 16, 2012, Macy's, Inc. and Macy's Merchandising Group, Inc. (together the Plaintiffs) filed suit against J. C. Penney Corporation, Inc. in the Supreme Court of the State of New York, County of New York, alleging that the Company tortiously interfered with, and engaged in unfair competition relating to a 2006 agreement between Macy's and Martha Stewart Living Omnimedia, Inc. (MSLO) by entering into a partnership agreement with MSLO in December 2011. The Plaintiffs seek primarily to prevent the Company from implementing our partnership agreement with MSLO as it relates to products in the bedding, bath, kitchen and cookware categories. The suit was consolidated with an already-existing breach of contract lawsuit by the Plaintiffs against MSLO, and a bench trial commenced on February 20, 2013. On March 7, 2013, the judge adjourned the trial until April 8, 2013, and ordered the parties into mediation. The parties did not reach a settlement, and the trial continued on April 8, 2013. The parties concluded their presentations of evidence on April 26, 2013, and completed post-trial briefs in late May, 2013. The court held closing arguments on August 1, 2013. The court has not yet issued a final decision in the case. On October 21, 2013, the Company and MSLO entered into an amendment of the partnership agreement, providing in part that the Company will not sell MSLO-designed merchandise in the bedding, bath, kitchen and cookware categories. While no assurance can be given as to the ultimate outcome of this matter, we currently believe that the final resolution of this action will not have a material adverse effect on our results of operations, financial position, liquidity or capital resources.

***Ozenne Derivative Lawsuit***
On January 19, 2012, a purported shareholder of the Company, Everett Ozenne, filed a shareholder derivative lawsuit in the 193rd District Court of Dallas County, Texas, against certain of the Company's Board of Directors and executives. The Company is a nominal defendant in the suit. The lawsuit alleges breaches of fiduciary duties, corporate waste and unjust enrichment involving decisions regarding executive compensation, specifically that compensation paid to certain executive officers from 2008 to 2011 was too high in light of the Company's financial performance. The suit seeks damages including unspecified compensatory damages, disgorgement by the former officers of allegedly excessive compensation, and equitable relief to reform the Company's compensation practices. The Company and the named individuals filed an Answer and Special Exceptions to the lawsuit, arguing primarily that the plaintiff could not proceed with his suit because he failed to make demand on the Company's Board of Directors, and that because demand on the Board would not be futile, demand is not excused. The trial court heard arguments on the Special Exceptions on June 25, 2012, and denied them. The Company and named individuals filed a mandamus proceeding in the Fifth District Court of Appeals challenging the trial court's decision. The parties have settled the litigation and the appellate court stayed the appeal so that the trial court could review the proposed settlement. On August 5, 2013, the trial court preliminarily approved the settlement, and notice was mailed to shareholders soon thereafter. The trial court finally approved the settlement at a hearing on October 28, 2013 and, despite objection, awarded the plaintiff $3.1 million in attorneys' fees and costs. The Company and named individuals have appealed the award of attorneys' fees and costs. While no assurance can be given as to the ultimate outcome of this matter, we currently believe that the final resolution of this action will not have a material adverse effect on our results of operations, financial position, liquidity or capital resources.

***Class Action Securities Litigation***
From October 1, 2013 through October 24, 2013, four purported class action complaints were filed naming the Company, Myron E. Ullman, III and Kenneth H. Hannah as defendants, by the following plaintiffs, individually and on behalf of all others similarly situated, in the U.S. District Court, Eastern District of Texas, Tyler Division: Marcus (filed October 1, 2013), Erdem (filed October 7, 2013), Murphy (filed October 21, 2013) and Gilbert (filed October 24, 2013). The Marcus, Erdem and Gilbert complaints are purportedly brought on behalf of persons who acquired our common stock during the period from August 20, 2013 through September 26, 2013. The complaint filed by Murphy is purportedly brought on behalf of persons who acquired our securities, including common stock, debt securities, and purchasers of call and sellers of put options, during the period from May 16, 2013 through September 26, 2013, and also names William A. Ackman, a former member of the Board of Directors, as a defendant. The complaints allege claims for violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder. Plaintiffs claim that the defendants made false and misleading statements and/or omissions regarding the Company's financial condition and business prospects that caused our common stock to trade at artificially inflated prices. The complaints seek class certification, unspecified compensatory damages, including interest, reasonable costs and expenses, and other relief as the court may deem just and proper. On December 2, 2013, various parties filed motions with the court seeking consolidation of the pending cases and appointment of lead plaintiff. We believe these class action complaints are without merit and we intend to vigorously defend these lawsuits. While no assurance can be given as to the ultimate outcome of this matter, we currently believe that the final resolution of these actions will not have a material adverse effect on our results of operations, financial position, liquidity or capital resources.

***Shareholder Derivative Litigation***
In October 2013, two purported shareholder derivative actions were filed against certain present and former members of the Company's Board of Directors and executives by the following parties in the U.S. District Court, Eastern District of Texas, Sherman Division: Weitzman (filed October 2, 2013) and Zauderer (filed October 3, 2013). The Company is named as a nominal defendant in both suits. The lawsuits assert claims for breaches of fiduciary duties and unjust enrichment based upon alleged false and misleading statements and/or omissions regarding the Company's financial condition. The lawsuits seek unspecified compensatory damages, restitution, disgorgement by the defendants of all profits, benefits and other compensation, equitable relief to reform the Company's corporate governance and internal procedures, reasonable costs and expenses, and other relief as the court may deem just and proper. On October 28, 2013, the Court consolidated the two cases into the Weitzman lawsuit. While no assurance can be given as to the ultimate outcome of this matter, we currently believe that the final resolution of this action will not have a material adverse effect on our results of operations, financial position, liquidity or capital resources.

***Other Legal Proceedings***
On October 7, 2013, the Company received a letter of inquiry from the Securities and Exchange Commission requesting information regarding the Company's liquidity, cash position, and debt and equity financing, as well as the Company's underwritten public offering of common stock announced on September 26, 2013. The Company is cooperating with the Securities and Exchange Commission in regards to its inquiry, including providing material requested by the Securities and Exchange Commission.

On November 9, 2013, the Company received a shareholder demand from a purported shareholder of the Company, Troy M. J. Baker, to conduct an investigation regarding potential claims that certain present and former members of the Company's Board of Directors and executives breached their fiduciary duties to the Company under Texas and/or Delaware law based upon allegations similar to those in the class action securities litigation and shareholder derivative litigation filed in October 2013 and to commence a civil action to recover for the Company's benefit the amount of damages allegedly sustained by the Company as a result of any such potential misconduct.

**Item 1A. Risk Factors**

The risk factors listed below update and supersede the risk factors associated with our business previously disclosed in Part II, Item 1A of our Quarterly Report on Form 10-Q for the fiscal quarter ended August 3, 2013.

***Our ability to return to profitable growth is subject to both the risks affecting our business generally and the inherent difficulties associated with shifting our strategic plan.***

In fiscal 2012, we made changes to our strategies that resulted in a pronounced decline in sales and resulted in significant variability between our financial expectations and actual results. We began shifting our strategies in the first quarter of fiscal 2013, but it may take longer than expected or planned to recover from our negative sales trends and operating results, and actual results may be materially less than planned. Our ability to improve our operating results depends upon a significant number of factors, some of which are beyond our control, including:

- customer response to our marketing and merchandise strategies;
- our ability to respond to competitive pressures in our industry;
- our ability to achieve profitable sales and to make adjustments in response to changing conditions;
- our ability to benefit from capital improvements made to our store environment;
- our ability to effectively manage inventory;
- the success of our cost reduction initiatives;
- our ability to respond to any unanticipated changes in expected cash flows, liquidity, cash needs and cash
- expenditures, including our ability to obtain any additional financing or other liquidity enhancing transactions, if and when needed;
- our ability to achieve positive cash flow;
- our ability to access adequate and uninterrupted supply of merchandise from suppliers at expected levels and on acceptable terms; and
- general economic conditions.

There is no assurance that our pricing, branding, store layout, marketing and merchandising strategies, or any future adjustments to our strategies, will improve our operating results.

***We operate in a highly competitive industry that includes significant promotional activity, which could adversely impact our sales and profitability.***

The retail industry is highly competitive, with few barriers to entry. We compete with many other local, regional and national retailers for customers, employees, locations, merchandise, services and other important aspects of our business. Those competitors include other department stores, discounters, home furnishing stores, specialty retailers, wholesale clubs, direct-to-consumer businesses, including those on the Internet, and other forms of retail commerce. Some competitors are larger than jcpenney, and/or have greater financial resources available to them, and, as a result, may be able to devote greater resources to sourcing, promoting and selling their products. Competition is characterized by many factors, including merchandise assortment, advertising, price, quality, service, location, reputation and credit availability. During fiscal 2012, we discontinued our former promotional strategy and encountered difficulties in communicating our value proposition. We have shifted our strategy in fiscal 2013 and are re-introducing certain promotional activities. However, we have experienced, and anticipate that we will continue to experience for at least the foreseeable future, significant competition from promotional activities of our competitors. The performance of competitors as well as changes in their pricing and promotional policies, marketing activities, new store openings, launches of Internet websites, brand launches and other merchandise and operational strategies could cause us to have lower sales, lower gross margin and/or higher operating expenses such as marketing costs and other selling, general and administrative expenses, which in turn could have an adverse impact on our profitability.

***Our sales and operating results depend on our ability to develop merchandise offerings that resonate with our existing customers and help to attract new customers.***

Our sales and operating results depend in part on our ability to predict and respond to changes in fashion trends and customer preferences in a timely manner by consistently offering stylish, quality merchandise assortments at competitive prices. We continuously assess emerging styles and trends and focus on developing a merchandise assortment to meet customer preferences. Even with these efforts, we cannot be certain that we will be able to successfully meet constantly changing customer demands. To the extent our predictions regarding our merchandise differ from our customers' preferences, we may be faced with reduced sales and excess inventories for some products and/or missed opportunities for others. Any sustained failure to identify and respond to emerging trends in lifestyle and customer preferences and buying trends could have an adverse impact on our business. In addition, merchandise misjudgments may adversely impact the perception or reputation of our Company, which could result in declines in customer loyalty and vendor relationship issues, and ultimately have a material adverse effect on our business, financial condition and results of operations.

***Our ability to increase sales and store productivity is largely dependent upon our ability to increase customer traffic and conversion.***

Customer traffic depends upon our ability to successfully market compelling merchandise assortments as well as present an appealing shopping environment and experience to existing customers and new customers. In fiscal 2012, our store customer traffic significantly decreased compared to the prior year. We are making changes to our strategy to increase customer traffic and improve conversion in our stores and online. There can be no assurance that our efforts to increase customer traffic and conversion will be successful or will result in increased sales. We may need to respond to any declines in customer traffic or conversion rates by increasing markdowns or promotions to attract customers to our stores, which could adversely impact our gross margins, operating results and cash flows from operating activities.

***If we are unable to manage our inventory effectively, our gross margins could be adversely affected.***

Our profitability depends upon our ability to manage appropriate inventory levels and respond quickly to shifts in consumer demand patterns. We must properly execute our inventory management strategies by appropriately allocating merchandise among our stores, timely and efficiently distributing inventory to stores, maintaining an appropriate mix and level of inventory in stores, adjusting our merchandise mix between our private and exclusive brands and national brands, appropriately changing the allocation of floor space of stores among product categories to respond to customer demand and effectively managing pricing and markdowns. If we overestimate customer demand for our merchandise, we will likely need to record inventory markdowns and move the excess inventory to be sold at clearance prices which would negatively impact our gross margins and operating results. If we underestimate customer demand for our merchandise, we may experience inventory shortages which may result in missed sales opportunities and have a negative impact on customer loyalty.

***Disruptions in our Internet website, or our inability to successfully execute our online strategy, could have an adverse impact on our sales and results of operations.***

We sell merchandise over the Internet through our website, www.jcp.com. As a result of a significant decline in sales volume through our website in fiscal 2012, we reorganized our Internet operations in fiscal 2013. However, it may take longer than expected or planned to recover from our negative online sales trends. Our Internet operations are also subject to numerous risks, including rapid technological change and the implementation of new systems and platforms; liability for online content; violations of state or federal laws, including those relating to online privacy; credit card fraud; problems associated with the operation of our website and related support systems; computer viruses; telecommunications failures; electronic break-ins and similar disruptions; and the allocation of inventory between our website and department stores. The failure of our website to perform as expected could result in disruptions and costs to our operations and make it more difficult for customers to purchase merchandise online. In addition, our inability to successfully develop and maintain the necessary technological interfaces for our customers to purchase merchandise through our website, including user friendly software applications for smart phones and tablets, could result in the loss in Internet sales and have an adverse impact on our results of operations.

***The failure to retain, attract and motivate our employees, including employees in key positions, could have an adverse impact on our results of operations.***

Our results depend on the contributions of our employees, including our senior management team and other key employees. This depends to a great extent on our ability to retain, attract and motivate talented employees throughout the organization, many of whom, particularly in the stores, are in entry level or part-time positions with historically high rates of turnover. Our ability to meet our changing labor needs while controlling our costs is also subject to external factors such as unemployment levels, competing wages and potential union organizing efforts. Because of our lower than expected operating results during fiscal 2012, we have not generally paid bonuses, and salary increases and incentive compensation opportunities could be limited. Any prolonged inability to provide salary increases or incentive compensation opportunities or substantial changes to our business model could have an adverse impact on our ability to attract, retain and motivate our employees. If we are unable to retain, attract and motivate talented employees with the appropriate skill sets, we may not achieve our objectives and our results of operations could be adversely impacted. In addition, the loss of one or more of our key personnel or the inability to effectively identify a suitable successor to a key role in our senior management could have a material adverse effect on our business.

***The reduction and restructuring of our workforce may adversely impact our operating performance and operating efficiency.***

As part of our cost reduction initiatives in fiscal 2012, we significantly reduced our corporate and operations headcount, including management level employees, and distribution and field employees. These reductions, combined with our voluntary early retirement plan initiated in 2011 and voluntary departures of employees, have resulted in a substantial amount of turnover of officers and line managers with specific knowledge relating to us, our operations and our industry that could be difficult to replace. We now operate with significantly fewer individuals who have assumed additional duties and responsibilities, which could have an adverse impact on our operating performance and operating efficiency.

***We must protect against security breaches or other disclosures of private data of our customers as well as of our employees and other third parties.***

As part of our normal operations, we receive and maintain personal information about our customers, our employees and other third parties. The confidentiality of all of our internal private data must at all times be protected against security breaches or other disclosure. We have systems and processes in place that are designed to protect information and protect against security and data breaches as well as fraudulent transactions and other activities. Despite our safeguards and security processes and protections, we cannot be assured that all of our systems and processes are free from vulnerability to security breaches or inadvertent data disclosure by third parties or us. Any failure to protect the confidential data of our customers or of our employees or other third parties could materially damage our brand and reputation as well as result in significant damage claims, any of which could have a material adverse impact on our business and results of operations.

***Our operations are dependent on information technology systems; disruptions in those systems or increased costs relating to their implementation could have an adverse impact on our results of operations.***

Our operations are dependent upon the integrity, security and consistent operation of various systems and data centers, including the point-of-sale systems in the stores, our Internet website, data centers that process transactions, communication systems and various software applications used throughout our Company to track inventory flow, process transactions and generate performance and financial reports.

In May 2013, we implemented the initial phase of an integrated suite of products from a third party vendor to simplify our processes and reduce our use of customized existing legacy systems and expect to place additional systems into operation in the future. Implementing new systems carries substantial risk, including implementation delays, cost overruns, disruption of operations, potential loss of data or information, lower customer satisfaction resulting in lost customers or sales, inability to deliver merchandise to our stores or our customers, and the potential inability to meet reporting requirements. There can be no assurances that we will successfully launch the new systems as planned, that the new systems will perform as expected or that the new systems will be implemented without disruptions to our operations, any of which may cause critical information upon which we rely to be delayed, unreliable, corrupted, insufficient or inaccessible.

We also outsource various information technology functions to third party service providers and may outsource other functions in the future. We rely on those third party service providers to provide services on a timely and effective basis and their failure to perform as expected or as required by contract could result in disruptions and costs to our operations.

We are also implementing mobile point-of-service and enhanced standard point-of-service technologies to enable our employees to provide high quality service to our customers and to provide our customers a better experience. We may not be able to effectively implement these technologies or be successful in marketing them to our customers. Our new or upgraded technology might not provide the anticipated benefits, it might take longer than expected to realize the anticipated benefits, may cost more than the expected costs to implement or the technology might fail altogether.

***Changes in our credit ratings may limit our access to capital markets and adversely affect our liquidity.***

The credit rating agencies periodically review our capital structure and the quality and stability of our earnings, as a result of which we have experienced multiple corporate credit ratings downgrades. These downgrades, and any future downgrades, to our long-term credit ratings could result in reduced access to the credit and capital markets and higher interest costs on future financings. The future availability of financing will depend on a variety of factors, such as economic and market conditions, the availability of credit and our credit ratings, as well as the possibility that lenders could develop a negative perception of us. If required, we may not be able to obtain additional financing, on favorable terms or at all.

***Our profitability depends on our ability to source merchandise and deliver it to our customers in a timely and cost-effective manner.***

Our merchandise is sourced from a wide variety of suppliers, and our business depends on being able to find qualified suppliers and access products in a timely and efficient manner. Inflationary pressures on commodity prices and other input costs could increase our cost of goods, and an inability to pass such cost increases on to our customers or a change in our merchandise mix as a result of such cost increases could have an adverse impact on our profitability. Additionally, the impact of current and future economic conditions on our suppliers cannot be predicted and may cause our suppliers to be unable to access financing or become insolvent and thus become unable to supply us with products.

***Our arrangements with our suppliers and vendors may be impacted by our financial results or financial position .***

Substantially all of our merchandise suppliers and vendors sell to us on open account purchase terms. There is a risk that our key suppliers and vendors could respond to any actual or apparent decrease in or any concern with our financial results or liquidity by requiring or conditioning their sale of merchandise to us on more stringent or more costly payment terms, such as by requiring standby letters of credit, earlier or advance payment of invoices, payment upon delivery or other assurances or credit support or by choosing not to sell merchandise to us on a timely basis or at all. Our arrangements with our suppliers and vendors may also be impacted by media reports regarding our financial position. Our need for additional liquidity could significantly increase and our supply of merchandise could be materially disrupted if a significant portion of our key suppliers and vendors took one or more of the actions described above, which could have a material adverse effect on our sales, customer satisfaction, cash flows, liquidity and financial position.

***Our senior secured term loan credit facility is secured by certain of our real property and substantially all of our personal property, and such property may be subject to foreclosure or other remedies in the event of our default. In addition, the term loan credit facility contains provisions that could restrict our operations and our ability to obtain additional financing.***

In May 2013, we entered into a $2.25 billion senior secured term loan credit facility that is secured by mortgages on certain real property of the Company, in addition to liens on substantially all personal property of the Company, subject to certain exclusions set forth in the credit and security agreement governing the term loan credit facility and related security documents. The real property subject to mortgages under the term loan credit facility includes our headquarters, distribution centers and certain of our stores.

The credit and guaranty agreement governing the term loan credit facility contains operating restrictions which may impact our future alternatives by limiting, without lender consent, our ability to borrow additional funds, execute certain equity financings or enter into dispositions or other liquidity enhancing or strategic transactions regarding certain of our assets, including our real property. Our ability to obtain additional or other financing or to dispose of certain assets could also be negatively impacted because a substantial portion of our owned assets have been pledged as collateral for repayment of our indebtedness under the term loan credit facility.

If an event of default occurs and is continuing, our outstanding obligations under the term loan credit facility could be declared immediately due and payable or the lenders could foreclose on or exercise other remedies with respect to the assets securing the term loan credit facility, including our headquarters, distribution centers and certain of our stores. If an event of default occurs, there is no assurance that we would have the cash resources available to repay such accelerated obligations or refinance such indebtedness on commercially reasonable terms, or at all. The occurrence of any one of these events could have a material adverse effect on our business, financial condition, results of operations and liquidity.

***Our revolving credit facility limits our borrowing capacity to the value of certain of our assets. In addition, our revolving credit facility is secured by certain of our personal property, and lenders may exercise remedies against the collateral in the event of our default.***

In February 2013, we amended and restated our existing revolving credit facility to increase the aggregate lending commitments to $1.85 billion. Our borrowing capacity under our revolving credit facility varies according to the Company's inventory levels, accounts receivable and credit card receivables, net of certain reserves. In the event of any material decrease in the amount of or appraised value of these assets, our borrowing capacity would similarly decrease, which could adversely impact our business and liquidity. In April 2013, we borrowed $850 million under the revolving credit facility, of which $200 million was repaid in October 2013.

Our revolving credit facility contains customary affirmative and negative covenants and certain restrictions on operations become applicable if our availability falls below certain thresholds. These covenants could impose significant operating and financial limitations and restrictions on us, including restrictions on our ability to enter into particular transactions and to engage in other actions that we may believe are advisable or necessary for our business. In addition, the revolving credit facility provides for a springing fixed charge coverage ratio if our availability falls below a specified threshold.

Our obligations under the revolving credit facility are secured by liens with respect to inventory, accounts receivable, deposit accounts and certain related collateral. In the event of a default that is not cured or waived within any applicable cure periods, the lenders' commitment to extend further credit under our revolving credit facility could be terminated, our outstanding obligations could become immediately due and payable, outstanding letters of credit may be required to be cash collateralized and remedies may be exercised against the collateral, which generally consists of the Company's inventory, accounts receivable and deposit accounts and cash credited thereto. If we are unable to borrow under our revolving credit facility, we may not have the necessary cash resources for our operations and, if any event of default occurs, there is no assurance that we would have the cash resources available to repay such accelerated obligations, refinance such indebtedness on commercially reasonable terms, or at all, or cash collateralize our letters of credit, which would have a material adverse effect on our business, financial condition, results of operations and liquidity.

***Our level of indebtedness may adversely affect our business and results of operations and may require the use of our available cash resources to meet repayment obligations, which could reduce the cash available for other purposes.***

As of November 2, 2013, we have approximately $5.612 billion in total indebtedness and are highly leveraged. Our level of indebtedness may limit our ability to obtain additional financing, if needed, to fund additional projects, working capital requirements, capital expenditures, debt service, and other general corporate or other obligations, as well as increase the risks to our business associated with general adverse economic and industry conditions. Our level of indebtedness may also place us at a competitive disadvantage to our competitors that are not as highly leveraged.

We are required to make quarterly repayments in a principal amount equal to $5.625 million during the five-year term of the term loan credit facility, beginning September 30, 2013, subject to certain reductions for mandatory and optional prepayments.

In addition, we are required to make prepayments of the term loan credit facility with the proceeds of certain asset sales, insurance proceeds and excess cash flow, which will reduce the cash available for other purposes and could impact our ability to reinvest in other areas of our business.

***We cannot assure that our internal and external sources of liquidity will at all times be sufficient for our cash requirements.***

We must have sufficient sources of liquidity to fund our working capital requirements, capital improvement plans, service our outstanding indebtedness and finance investment opportunities. The principal sources of our liquidity are funds generated from operating activities, available cash and cash equivalents, borrowings under our credit facilities, other debt financings and sales of non-operating assets. Our recent operating losses have limited our capital resources. Our ability to achieve our business and cash flow plans is based on a number of assumptions which involve significant judgments and estimates of future performance, borrowing capacity and credit availability, which cannot at all times be assured. Accordingly, we cannot assure that cash flows from operations and other internal and external sources of liquidity will at all times be sufficient for our cash requirements. If necessary, we may need to consider actions and steps to improve our cash position and mitigate any potential liquidity shortfall, such as modifying our business plan, pursuing additional financing to the extent available, reducing capital expenditures, pursuing and evaluating other alternatives and opportunities to obtain additional sources of liquidity and other potential actions to reduce costs. We cannot assure that any of these actions would be successful, sufficient or available or available on favorable terms. Any inability to generate or obtain sufficient levels of liquidity to meet our cash requirements at the level and times needed could have a material adverse impact on our business and financial position.

Our ability to obtain any additional financing or any refinancing of our debt, if needed at any time, depends upon many factors, including our existing level of indebtedness and restrictions in our debt facilities, historical business performance, financial projections, prospects and creditworthiness and external economic conditions and general liquidity in the credit and capital markets. Any additional debt, equity or equity-linked financing may require modification of our existing debt agreements, which we cannot assure would be obtainable. Any additional financing or refinancing could also be extended only at higher costs and require us to satisfy more restrictive covenants, which could further limit or restrict our business and results of operations, or be dilutive to our stockholders.

***Operating results and cash flows may cause us to incur asset impairment charges.***

Long-lived assets, primarily property and equipment, are reviewed at the store level at least annually for impairment, or whenever changes in circumstances indicate that a full recovery of net asset values through future cash flows is in question.  We also assess the recoverability of indefinite-lived intangible assets at least annually or whenever events or changes in circumstances indicate that the carrying amount may not be fully recoverable. Our impairment review requires us to make estimates and projections regarding, but not limited to, sales, operating profit and future cash flows. In fiscal 2012, we shifted our business model from a promotional department store to a specialty department store and our 2012 and 2013 sales, operating profit and cash flows have declined significantly. During the first quarter of 2013, we began the process of returning the majority of our business to a promotional model. In addition, we are undertaking several merchandise initiatives to make our assortments more compelling to customers. If, taking into account the results of our fiscal fourth quarter, our operating performance reflects a sustained decline, we may be exposed to significant asset impairment charges in the fourth quarter, which could be material to our results of operations.

***We are subject to risks associated with importing merchandise from foreign countries.***

A substantial portion of our merchandise is sourced by our vendors and by us outside of the United States. All of our suppliers must comply with our supplier legal compliance program and applicable laws, including consumer and product safety laws. Although we diversify our sourcing and production by country and supplier, the failure of a supplier to produce and deliver our goods on time, to meet our quality standards and adhere to our product safety requirements or to meet the requirements of our supplier compliance program or applicable laws, or our inability to flow merchandise to our stores or through the Internet channel in the right quantities at the right time could adversely affect our profitability and could result in damage to our reputation.

Although we have implemented policies and procedures designed to facilitate compliance with laws and regulations relating to doing business in foreign markets and importing merchandise from abroad, there can be no assurance that suppliers and other third parties with whom we do business will not violate such laws and regulations or our policies, which could subject us to liability and could adversely affect our results of operations.

We are subject to the various risks of importing merchandise from abroad and purchasing product made in foreign countries, such as

- potential disruptions in manufacturing, logistics and supply;
- changes in duties, tariffs, quotas and voluntary export restrictions on imported merchandise;
- strikes and other events affecting delivery;
- consumer perceptions of the safety of imported merchandise;
- product compliance with laws and regulations of the destination country;
- product liability claims from customers or penalties from government agencies relating to products that are recalled, defective or otherwise noncompliant or alleged to be harmful;
- concerns about human rights, working conditions and other labor rights and conditions and environmental impact in foreign countries where merchandise is produced and raw materials or components are sourced, and changing labor, environmental and other laws in these countries;
- local business practice and political issues that may result in adverse publicity or threatened or actual adverse consumer actions, including boycotts;
- compliance with laws and regulations concerning ethical business practices, such as the U.S. Foreign Corrupt Practices Act; and
- economic, political or other problems in countries from or through which merchandise is imported.

Political or financial instability, trade restrictions, tariffs, currency exchange rates, labor conditions, transport capacity and costs, systems issues, problems in third party distribution and warehousing and other interruptions of the supply chain, compliance with U.S. and foreign laws and regulations and other factors relating to international trade and imported merchandise beyond our control could affect the availability and the price of our inventory. A significant amount of merchandise we offer for sale is made in China and accordingly, a revaluation of the Chinese currency, or a lessening of Chinese governmental control of the exchange rate for that currency, in each case leading to an increase in its value relative to the U.S. dollar, could potentially result in a significant increase in the cost of inventory. These risks and other factors relating to foreign trade could subject us to liability or hinder our ability to access suitable merchandise on acceptable terms, which could adversely impact our results of operations.

***Our Company's growth and profitability depend on the levels of consumer confidence and spending.***

Our results of operations are sensitive to changes in overall economic and political conditions that impact consumer spending, including discretionary spending. Many economic factors outside of our control, including the housing market, interest rates, recession, inflation and deflation, energy costs and availability, consumer credit availability and terms, consumer debt levels, tax rates and policy, and unemployment trends influence consumer confidence and spending. The domestic and international political situation and actions also affect consumer confidence and spending. Additional events that could impact our performance include pandemics, terrorist threats and activities, worldwide military and domestic disturbances and conflicts, political instability and civil unrest. Declines in the level of consumer spending could adversely affect our growth and profitability.

***Our business is seasonal, which impacts our results of operations.***

Our annual earnings and cash flows depend to a great extent on the results of operations for the last quarter of our fiscal year, which includes the holiday season. Our fiscal fourth-quarter results may fluctuate significantly, based on many factors, including holiday spending patterns and weather conditions. This seasonality causes our operating results to vary considerably from quarter to quarter.

***Our profitability may be impacted by weather conditions.***

Our merchandise assortments reflect assumptions regarding expected weather patterns and our profitability depends on our ability to timely deliver seasonally appropriate inventory. Unseasonable or unexpected weather conditions such as warm temperatures during the winter season or prolonged or extreme periods of warm or cold temperatures could render a portion of our inventory incompatible with consumer needs. Extreme weather or natural disasters could also severely hinder our ability to timely deliver seasonally appropriate merchandise, delay capital improvements or cause us to close stores. A reduction in the demand for or supply of our seasonal merchandise could have an adverse effect on our inventory levels, gross margins and results of operations.

***Changes in federal, state or local laws and regulations could increase our expenses and adversely affect our results of operations.***

Our business is subject to a wide array of laws and regulations. The current political environment, financial reform legislation, the current high level of government intervention and activism, regulatory reform and stockholder activism may result in substantial new regulations and disclosure obligations, which may lead to additional compliance costs as well as the diversion of our management's time and attention from strategic initiatives. If we fail to comply with applicable laws and regulations we could be subject to legal risk, including government enforcement action and class action civil litigation that could increase our cost of doing business. Changes in the regulatory environment regarding topics such as privacy and information security, product safety or environmental protection, including regulations in response to concerns regarding climate change, collective bargaining agreements and health care mandates, among others, could also cause our compliance costs to increase and adversely affect our results of operations.

***Legal and regulatory proceedings could have an adverse impact on our results of operations.***

Our Company is subject to various legal and regulatory proceedings relating to our business, certain of which may involve jurisdictions with reputations for aggressive application of laws and procedures against corporate defendants. We are impacted by trends in litigation, including class action litigation brought under various consumer protection, employment, and privacy and information security laws. In addition, litigation risks related to claims that technologies we use infringe intellectual property rights of third parties have been amplified by the increase in third parties whose primary business is to assert such claims. Reserves are established based on our best estimates of our potential liability. However, we cannot accurately predict the ultimate outcome of any such proceedings due to the inherent uncertainties of litigation. Regardless of the outcome or whether the claims are meritorious, legal and regulatory proceedings may require that we devote substantial time and expense to defend our Company. Unfavorable rulings could result in a material adverse impact on our business, financial condition or results of operations.

***Significant changes in discount rates, actual investment return on pension assets, and other factors could affect our earnings, equity, and pension contributions in future periods.***

Our earnings may be positively or negatively impacted by the amount of income or expense recorded for our qualified pension plan. Generally accepted accounting principles in the United States of America (GAAP) require that income or expense for the plan be calculated at the annual measurement date using actuarial assumptions and calculations. The most significant assumptions relate to the capital markets, interest rates and other economic conditions. Changes in key economic indicators can change the assumptions. Two critical assumptions used to estimate pension income or expense for the year are the expected long-term rate of return on plan assets and the discount rate. In addition, at the measurement date, we must also reflect the funded status of the plan (assets and liabilities) on the balance sheet, which may result in a significant change to equity through a reduction or increase to other comprehensive income. Although GAAP expense and pension contributions are not directly related, the key economic factors that affect GAAP expense would also likely affect the amount of cash we could be required to contribute to the pension plan. Potential pension contributions include both mandatory amounts required under federal law and discretionary contributions to improve a plan's funded status.

***Provisions in our charter and bylaws, Delaware law, and our stockholder rights plan could delay and discourage takeover attempts that stockholders may consider favorable.***

Certain provisions of our Restated Certificate of Incorporation, as amended, and Bylaws, as amended, and applicable provisions of Delaware corporate law, could make it more difficult for a third party to acquire control of us or have the effect of discouraging a third party from attempting to acquire control of us. Our Restated Certificate of Incorporation authorizes our Board of Directors to issue preferred stock, which could be issued as a defensive measure in response to a takeover proposal. In addition, our Bylaws provide that special meetings of our stockholders may only be called by the Board of Directors. We are also subject to Section 203 of the Delaware General Corporation Law, which prohibits a person who owns in excess of 15% of our outstanding voting stock from merging or combining with us for a period of three years after the date of the transaction in which the person acquired in excess of 15% of our outstanding voting stock, unless the merger or combination is approved in a prescribed manner. In addition, the fact that our ability to utilize our tax net operating losses could be adversely affected by a change in control could have an anti-takeover effect.

We adopted a stockholder rights plan in August 2013 that could make it more difficult for a third party to acquire, or could discourage a third party from acquiring, our Company or a large block of our common stock. A third party that acquires 10% or more of our common stock could suffer substantial dilution of its ownership interest under the terms of the stockholder rights plan through the issuance of common stock or common stock equivalents to all stockholders other than the acquiring person.

The foregoing provisions may adversely affect the marketability of the common stock by discouraging potential investors from acquiring our stock. In addition, these provisions could delay or frustrate the removal of incumbent directors and could make more difficult a merger, tender offer or proxy contest involving us, or impede an attempt to acquire a significant or controlling interest in us, even if such events might be beneficial to us and our stockholders.

***Our stock price has been and may continue to be volatile.***

The market price of our common stock has fluctuated substantially and may continue to fluctuate significantly. Future announcements or disclosures concerning us or any of our competitors, our strategic initiatives, our sales and profitability, our financial condition, any quarterly variations in actual or anticipated operating results or comparable sales, any failure to meet analysts' expectations and sales of large blocks of our common stock, among other factors, could cause the market price of our common stock to fluctuate substantially. In addition, the stock market has experienced price and volume fluctuations that have affected the market price of many retail and other stocks and that have often been unrelated or disproportionate to the operating performance of these companies. Securities class action litigation has often been instituted against companies following periods of volatility in the overall market and in the market price of a company's securities. During October 2013, four purported class action complaints and two shareholder derivative actions were filed against the Company and certain of our current and former Board of Directors and executives following our announcement of an issuance of common stock on September 26, 2013.
Such litigation could result in substantial costs, divert our management's attention and resources and have an adverse effect on our business, results of operations and financial condition. This volatility could affect the price at which you could sell shares of our common stock.

***The Company's ability to use net operating loss carry-forwards to offset future taxable income for U.S. federal income tax purposes may be limited.***

As of the nine months ended November 2, 2013, the Company has a federal net operating loss ("NOL") of approximately $2.5 billion. This NOL carryforward (expiring in 2032 and 2033) is available to offset future taxable income.

Section 382 of the Internal Revenue Code of 1986, as amended (the "Code") imposes an annual limitation on the amount of taxable income that may be offset if a corporation experiences an "ownership change" as defined in Section 382 of the Code. An ownership change occurs when the Company's "five-percent shareholders" (as defined in Section 382 of the Code) collectively increase their ownership in the Company by more than 50 percentage points (by value) over a rolling three-year period. Additionally, various states have similar limitations on the use of state NOLs following an ownership change.

If an ownership change occurs, the amount of the taxable income for any post-change year which may be offset by a pre-change loss is subject to an annual limitation that is cumulative to the extent it is not all utilized in a year. This limitation is derived by multiplying the fair market value of the Company stock as of the ownership change by the applicable federal long-term tax-exempt rate which was 3.5% at November 2, 2013. To the extent that a company has a net unrealized built-in gain at the time of an ownership change, which is realized or deemed recognized during the five-year period following the ownership change, there is an increase in the annual limitation for each of the first five-years that is cumulative to the extent it is not all utilized in a year.

The Company has an ongoing study of the rolling three-year testing periods. Final conclusions of the study will depend on both (1) elections regarding a possible ownership change to be made post-year end in filing the Company's federal income tax return and (2) information that may not have yet been filed with the Securities and Exchange Commission ("SEC") by all five-percent shareholders. Based upon the elections the Company currently plans to make in filing its tax return and the information that has been filed with the SEC as of December 2, 2013, the Company has not had a Section 382 ownership change through November 2, 2013. Certain five-percent shareholders have as late as February 15, 2014 to make filings with the SEC that could change the conclusions of the study.

If the Company were to make certain alternative elections, an ownership change could be established as occurring on September 26, 2013 when the Company's trading value would have been approximately $2.3 billion before adjustment for the value of any control premium. Under section 382 of the Code, as of September 26, 2013 the annual NOL limitations and built-in gain adjustments that would apply through the respective NOL and credit carryforward periods would total approximately $2.3 billion, and would exceed the total of the tax loss carryforwards (including carryover credits on a loss equated basis) recognizable as of September 26, 2013. Certain foreign tax credit carryforwards and unused charitable contribution tax benefits totaling $17 million would be written-off against the valuation allowance in a September 26, 2013 ownership change scenario due to their shorter carryforward periods.

Effective October 22, 2013, the Internal Revenue Service made final certain proposed regulations under Section 382. These regulations are generally more taxpayer favorable as to measuring the impact of an ownership shift and allow a corporate taxpayer to apply the new regulations to prior testing dates as long as an ownership change had not occurred under the old regulations in any testing period ending on or before October 22, 2013. The Company plans to revise its ongoing study of the rolling three-year testing periods so that all ownership shifts are determined under the new regulations. There is no assurance that the revised analysis will produce a significantly lower ownership shift as compared to that computed under the old regulations.

Avoiding an initial ownership shift by staying under a cumulative 50 percentage point shift in the rolling three year testing periods is preferable to being subject to the Section 382 NOL limitations. If an ownership change is encountered at some point, it is generally preferable that it be at a time when the value of the company and built-in gains to be recognized are such that the Section 382 limitations are at their highest levels as compared to the loss and credit carryforwards. Losses incurred after an ownership change are not subject to limitation except where there is a new cumulative 50 percentage point change under the rolling three year testing periods. The Company plans to continue its analysis of the elections available to it in filing its federal income tax return and the impact of the new regulations.

If an ownership change should occur in the future, the Company’s ability to use the NOL to offset future taxable income will be subject to an annual limitation and will depend on the amount of taxable income generated by the Company in future periods. There is no assurance that the Company will be able to fully utilize the NOL and the Company could be required to record an additional valuation allowance related to the amount of the NOL that may not be realized, which could impact the Company’s result of operations.

Table of Contents

**Item 6. Exhibits**

**Exhibit Index**

| Exhibit No. | Exhibit Description | Incorporated by Reference: Form | SEC File No. | Exhibit | Filing Date | Filed (†) Herewith (as indicated) |
|---|---|---|---|---|---|---|
| 3.1 | Restated Certificate of Incorporation of J. C. Penney Company, Inc., as amended to May 20, 2011 | 10-Q | 001-15274 | 3.1 | 6/8/2011 | |
| 3.2 | J. C. Penney Company, Inc. Bylaws, as amended to July 23, 2013 | 8-K | 001-15274 | 3.1 | 7/26/2013 | |
| 3.3 | Certificate of Designation, Preferences and Rights of Series C Junior Participating Preferred Stock | 8-K | 001-15274 | 3.1 | 8/22/2013 | |
| 4.1 | Rights Agreement, dated as of August 22, 2013, by and between J. C. Penney Company, Inc. and Computershare Inc., as Rights Agent | 8-K | 001-15274 | 4.1 | 8/22/2013 | |
| 10.1 | Registration Rights Agreement dated August 13, 2013, among J. C. Penney Company, Inc., Pershing Square Capital Management, L.P., PS Management GP, LLC, Pershing Square GP, LLC, William A. Ackman and certain affiliated Pershing Square funds | 8-K | 001-15274 | 10.1 | 8/16/2013 | |
| 10.2 | Third Amendment dated as of October 11, 2013 to Consumer Credit Card Program Agreement by and between J. C. Penney Corporation, Inc. and GE Capital Retail Bank, as amended and restated as of November 5, 2009, as amended by the First Amendment thereto dated as of October 29, 2010 and the Second Amendment thereto dated as of January 30, 2013 | 8-K | 001-15274 | 10.1 | 10/15/2013 | |
| 10.3 | JCP Form of Executive Termination Pay Agreement, as amended and restated effective December 3, 2013 | | | | | † |

| Exhibit No. | Exhibit Description | Incorporated by Reference Form | SEC File No. | Exhibit | Filing Date | Filed (†) Herewith (as indicated) |
|---|---|---|---|---|---|---|
| 31.1 | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | | | | | † |
| 31.2 | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | | | | | † |
| 32.1 | Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | | | | | † |
| 32.2 | Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | | | | | † |
| 101.INS | XBRL Instance Document | | | | | † |
| 101.SCH | XBRL Taxonomy Extension Schema Document | | | | | † |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document | | | | | † |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document | | | | | † |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document | | | | | † |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document | | | | | † |

**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.

J. C. PENNEY COMPANY, INC.
By /s/ Dennis P. Miller
Dennis P. Miller
Senior Vice President and Controller
(Principal Accounting Officer)

Date: December 5, 2013

FORM OF

EXECUTIVE TERMINATION PAY AGREEMENT

This Executive Termination Pay Agreement (the "Agreement"), dated as of _______________, 2013 is between J.C. Penney Corporation, Inc. ("Corporation") and the undersigned member of the Corporation's Executive Board (the "Executive").

WHEREAS, in order to achieve its long-term objectives, the Corporation recognizes that it is essential to attract and retain superior executives to serve on its Executive Board;

WHEREAS, in order to induce the Executive to serve in the Executive's position with the Corporation, the Corporation desires to provide the Executive with the right to receive certain benefits in the event the Executive's employment is terminated, on the terms and subject to the conditions hereinafter set forth;

NOW, THEREFORE, in consideration of the promises and of the mutual covenants herein contained, it is agreed as follows:

1. Termination Payments and Benefits.

1.1 *Death or Permanent Disability.* In the event of a Separation from Service due to death, or in the event of a Separation from Service within 30 days following a determination of Permanent Disability (as defined in Section 2) of the Executive, then as soon as practicable or within the period required by law, but in no event later than 30 days after Separation from Service, the Corporation shall pay any (a) accrued and unpaid Base Salary (as defined in Section 2) and vacation to which the Executive was entitled as of the effective date of termination of the Executive's employment with the Corporation (collectively, the "Compensation Payments") and (b) the target annual incentive (at $1.00 per unit) under the Corporation's Management Incentive Compensation Program for the fiscal year in which the date of death or the determination of Permanent Disability occurs, prorated for the actual period of service for that fiscal year (the "Prorated Bonus"). Notwithstanding the foregoing, if the Executive has elected to defer under the Corporation's Mirror Savings Plan (or any successor plan) a portion of the annual incentive to be paid under the Corporation's Management Incentive Compensation Program for the fiscal year, then that portion of the Prorated Bonus will be deferred and paid in accordance with the terms of the Corporation's Mirror Savings Plan, and the remaining portion of the Prorated Bonus will be paid in a lump sum under this Section. The payment of any death benefits or disability benefits under any employee benefit or compensation plan that is maintained by the Corporation for the Executive's benefit shall be governed by the terms of such plan.

1.2 *Involuntary Separation from Service for Cause; Voluntary Separation from Service by the Executive.* In the event of the Involuntary Separation from Service (as defined in Section 2) of the Executive for Cause (as defined in Section 2) or voluntary Separation from Service by the Executive, the Corporation shall pay the Compensation Payments to the Executive as soon as practicable or within the period required by law, and the Executive shall be entitled to no other compensation, except as otherwise due to the Executive under applicable law, applicable plan or program. The Executive shall not be entitled to the payment of any bonuses for any portion of the fiscal year in which such Separation from Service occurs.

1.3 *Involuntary Separation from Service without Cause.*

*(a)* *Form and Amount*. In the event of the Involuntary Separation from Service of the Executive without Cause, the Corporation shall pay the Compensation Payments to the Executive as soon as practicable or within the period required by law. In addition, conditioned upon receipt of the Executive's written release of claims in such form as may be required by the Corporation and the expiration of any applicable period during which the Executive can rescind or revoke such release, the Corporation shall pay the Executive a lump sum as severance pay within 14 days thereafter. In no event will severance pay be paid later than two and one-half months after the end of the Executive's tax year in which the Involuntary Separation from Service occurs. The lump sum severance pay will be equal to (i) the Severance Bonus, except as provided below, (ii) the Executive's monthly salary and the target annual incentive (at $1.00 per unit) under the Corporation's Management Incentive Compensation Program for the Severance Period (as defined in Section 2), (iii) the Corporation's portion of the premium cost of Medical, Dental, and Corporation Paid Life Insurance Plans coverage for the Severance Period as provided in Section 1.3(b), (iv) Special Bonus Hours to the extent provided under Section 1.3(c), and (v) $25,000 to pay for outplacement services and financial counseling services. Notwithstanding the foregoing, if the Executive has elected to defer under the Corporation's Mirror Savings Plan a portion of the annual incentive to be paid under the Corporation's Management Incentive Compensation Program for the fiscal year, then that portion of the Severance Bonus will be deferred and paid in accordance with the terms of the Corporation's Mirror Savings Plan, and the remaining portion of the Severance Bonus will be paid in a lump sum under this

Section. In addition to the lump sum payments provided for herein, following an Involuntary Separation from Service other than for Cause, the Corporation shall also provide to the Executive Accelerated Vesting as provided in Section 1.3(d).

*(b)* *Health Care and Life Insurance* . Following an Involuntary Separation from Service other than for Cause, the Executive will receive a lump sum payment equal to the Corporation's premium cost for the Executive's active Associate Medical, Dental and Life Insurance Plans coverage, if any, as in effect on the day prior to the effective date of the Executive's Involuntary Separation from Service other than for Cause, in an amount based on the entire Severance Period. Such amount shall be grossed-up for applicable federal income taxes using the applicable federal income tax rate that applied to the Executive for the taxable year prior to the year in which the Involuntary Separation from Service shall have occurred.

*(c)* *Special Bonus Hours*. Following an Involuntary Separation from Service, the Corporation shall pay the Executive a lump sum payment for Special Bonus Hours, if the Executive is a participant in the Corporation's Paid Time Off Policy ("PTO Policy"). Such payment shall be determined in accordance with the provisions of the PTO Policy applicable to an involuntary termination resulting from a reduction in force.

*(d)* *Accelerated Vesting.* On Executive's Involuntary Separation from Service other than for Cause, Executive shall:

(i) with respect to any equity award that constitutes an Inducement Award, immediately vest in such Inducement Award as provided in the applicable award notice or agreement evidencing the award.

(ii) with respect to any award of stock options, stock appreciation rights, or time-based restricted stock or restricted units, immediately vest in a prorated number of the stock options, stock appreciation rights, and/or time-based restricted stock or restricted stock units based on the Executive's length of employment during the vesting period provided in the applicable award notice or agreement.

(iii) with respect to any award of performance-based restricted stock or restricted stock unit awards, vest in a prorated number of such performance-based restricted stock or restricted stock units based on (X) Executive's length of employment during the performance period, and (Y) the attainment of the performance goal as of the end of the performance period, all as provided under the terms of the respective award notice or agreement.

1.4 *Section 409A.* To the extent applicable, it is intended that portions of this Agreement either comply with or be exempt from the provisions of Section 409A of the Code (as defined in Section 2). Any provision of this Agreement that would cause this Agreement to fail to comply with or be exempt from Code section 409A shall have no force and effect until such provision is either amended to comply with or be exempt from Code section 409A (which amendment may be retroactive to the extent permitted by Code section 409A and the Executive hereby agrees not to withhold consent unreasonably to any amendment requested by the Corporation for the purpose of either complying with or being exempt from Code section 409A).

1.5 *Forfeiture*. Notwithstanding the foregoing provisions of this Section 1, in addition to any remedies to which the Corporation is entitled, any right of the Executive to receive termination payments and benefits under Section 1 shall be forfeited to the extent of any amounts payable or benefits to be provided after a breach of any covenant set forth in Section 3.

1.6 *Non-Eligibility For Other Company Separation Pay Benefits* . The benefits provided for herein are intended to be in lieu of, and not in addition to, other separation pay benefits to which the Executive might be entitled, including those under the Corporation's Separation Pay Plan, or any successor plan or program offered by the Corporation, which the Executive hereby waives. If the Executive receives benefits under the Corporation's Change in Control Plan (the "CIC Plan"), in the event of Employment Termination (as defined in the CIC Plan), the covenants set forth in Section 3 hereof shall automatically terminate and, if the Executive shall receive all benefits to which the Executive is entitled under the CIC Plan, the Executive waives all benefits hereunder.

1.7 *Corporation's Right of Offset* . If the Executive is at any time indebted to the Corporation, or otherwise obligated to pay money to the Corporation for any reason, to the extent exempt from or otherwise permitted by Code section 409A and the Treasury Regulations thereunder, including Treasury Regulation section 1.409A-3(j)(4)(xiii) or any successor thereto, the Corporation, at its election, may offset amounts otherwise payable to the Executive under this Agreement, including, but without limitation, Base Salary and incentive compensation payments, against any such indebtedness or amounts due from the Executive to the Corporation, to the extent permitted by law.

1.8 *Mitigation*. In the event of the Involuntary Separation from Service of the Executive, the Executive shall not be required to mitigate damages by seeking other employment or otherwise as a condition to receiving termination payments or benefits under this Agreement. No amounts earned by the Executive after the Executive's Involuntary Separation from Service, whether from self-employment, as a common law employee, or otherwise, shall reduce the amount of any payment or benefit under any provision of this Agreement.

1.9 *Resignations*. Except to the extent requested by the Corporation, upon any termination of the Executive's employment with the Corporation, the Executive shall immediately resign all positions and directorships with the Corporation and each of its subsidiaries and affiliates.

2. Certain Definitions.

As used in this Agreement, the following terms shall have the following meanings:

2.1 *"Agreement*" shall mean this Executive Termination Pay Agreement.

2.2 *"Base Salary"* shall mean the Executive's annual base salary as in effect at the effective date of termination of the Executive's termination of employment with the Corporation.

2.3 *"Cause"* shall mean (a) an intentional act of fraud, embezzlement, theft or any other material violation of law that occurs during or in the course of Executive's employment with the Corporation; (b) intentional damage to the Corporation's assets; (c) intentional disclosure of the Corporation's confidential information contrary to Corporation's policies; (d) material breach of Executive's obligations under this Agreement; (e) intentional engagement in any competitive activity which would constitute a breach of Executive's duty of loyalty or of Executive's obligations under this Agreement; (f) the willful and continued failure to substantially perform Executive's duties for the Corporation (other than as a result of incapacity due to physical or mental illness); or (g) intentional breach of any of Corporation's policies or willful conduct by Executive that is in either case demonstrably and materially injurious to Corporation, monetarily or otherwise; provided, however, that termination for Cause based on clause (d) shall not be effective unless the Executive shall have written notice from the Chief Executive Officer of the Corporation (which notice shall include a description of the reasons and circumstances giving rise to such notice) not less than 30 days prior to the Executive's termination and the Executive has failed after receipt of such notice to satisfactorily discharge the Executive's duties. For purposes hereof, an act, or a failure to act, shall not be deemed "willful" or "intentional" unless it is done, or omitted to be done, by the Executive in bad faith or without a reasonable belief that the Executive's action or omission was in the best interest of Corporation. Failure to meet performance standards or objectives, by itself, does not constitute "Cause."

"Cause" also includes any of the above grounds for dismissal regardless of whether the Corporation learns of it before or after terminating Executive's employment.

2.4 "*Code*" shall mean the Internal Revenue Code of 1986, as amended, including proposed, temporary or final regulations or any other guidance issued by the Secretary of the Treasury or the Internal Revenue Service with respect thereto.

2.5 "*CIC Plan*" shall have the meaning ascribed thereto in Section 1.6.

2.6 "*Compensation Payments*" shall have the meaning ascribed thereto in Section 1.1.

2.7 "*Competing Business*" shall have the meaning ascribed thereto in Section 3.4.

2.8 "*Corporation"* shall mean J.C. Penney Corporation, Inc.

2.9 "*Executive*" shall mean the undersigned member of the Corporation's Executive Board.

2.10 "*Inducement Award"* shall mean an equity award granted to Executive in consideration of Executive's (i) employment with the Corporation and (ii) forfeiture of equity awards granted by a former employer.

2.11 "*Involuntary Separation from Service*" shall mean Separation from Service due to the independent exercise of the unilateral authority of the Service Recipient to terminate the Executive's services, other than due to the Executive's implicit or explicit request, where the Executive was willing and able to continue performing services, within the meaning of Code section 409A and Treasury Regulation section 1.409A-1(n)(1) or any successor thereto.

2.12 *"Management Incentive Compensation Program"* shall mean the Management Incentive Compensation Program approved by shareholders on May 18, 2012, as such may be amended from time to time, or any successor plan or program that replaces the Management Incentive Compensation Program.

2.13 *"Permanent Disability"* means the Executive is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, within the meaning of Code section 409A and Treasury Regulation section 1.409A-3(i)(4)(i)(A) or any successor thereto. A determination of Permanent Disability, for purposes of payment under this Agreement, will be made by the Corporation's disability insurance plan administrator or insurer.

2.14 *"Proprietary Information*" shall have the meaning ascribed thereto in Section 3.

2.15 *"Prorated Bonus"* shall have the meaning ascribed thereto in Section 1.1.

2.16 "*PTO Policy*" shall have the meaning ascribed thereto in Section 1.3.

2.17 "*Separation from Service"* within the meaning of Code section 409A and Treasury Regulation section 1.409A-1(h) or any successor thereto, shall mean the date an Executive retires, dies or otherwise has a termination of employment with the Service Recipient. In accordance with Treasury Regulation section 1.409A-1(h) or any successor thereto, if an Executive is on a period of leave that exceeds six months and the Executive does not retain a right to reemployment under an applicable statute or by contract, the employment relationship is deemed to terminate on the first date immediately following such six-month period, and also, an Executive is presumed to have separated from service where the level of bona fide services performed (whether as an employee or an independent contractor) decreases to a level equal to 20 percent or less of the average level of services performed (whether as an employee or an independent contractor) by the Executive during the immediately preceding 36-month period (or the full period of service to the Service Recipient if the employee has been providing services for less than the 36-month period).

2.18 "*Service Recipient*" shall mean the person, within the meaning of Treasury Regulation section 1.409A-1(g) or any successor thereto, for whom the services are performed and with respect to whom the legally binding right to compensation arises, and all persons with whom such person would be considered a single employer under Code section 414(b) (employees of controlled group of corporations), and all persons with whom such person would be considered a single employer under Code section 414(c) (employees of partnerships, proprietorships, etc., under common control), using the "at least 50 percent" ownership standard, within the meaning of Code section 409A and Treasury Regulation section 1.409A-1(h)(3) or any successor thereto.

2.19 "*Severance Bonus*" shall mean the average of the actual payments made to the Executive under the Corporation's Management Incentive Compensation Program for each of the three fiscal years immediately preceding the fiscal year in which the Executive experiences an Involuntary Separation from Service other than for Cause. If the Executive has been employed by the Corporation for less than three fiscal years then the Severance Bonus shall be equal to the average of the actual payments made to the Executive under the Corporation's Management Incentive Compensation Program for the fiscal years, or portion thereof, that the Executive has been employed by the Corporation.

2.20 "*Severance Period*" shall mean the following period, based on the Executive's title at the time of termination of the Executive's employment with the Corporation:

| **Title** | **Severance Period** |
|---|---|
| Executive Vice Presidents and above | 18 months |
| Senior Vice President | 12 months |

3. Covenants and Representations of the Executive. The Executive hereby acknowledges that the Executive's duties to the Corporation require access to and creation of the Corporation's confidential or proprietary information and trade secrets (collectively, the "Proprietary Information"). The Proprietary Information has been and will continue to be developed by the Corporation and its subsidiaries and affiliates at substantial cost and constitutes valuable and unique property of the Corporation. The Executive further acknowledges that due to the nature of the Executive's position, the Executive will have access to Proprietary Information affecting plans and operations in every location in which the Corporation (and its subsidiaries and affiliates) does business or plans to do business throughout the world, and the Executive's decisions and recommendations on behalf of the Corporation may affect its operations throughout the world. Accordingly, the Executive acknowledges that the foregoing makes it reasonably necessary for the protection of the Corporation's business interests that the Executive agree to the following covenants:

3.1 *Confidentiality*. The Executive hereby covenants and agrees that the Executive shall not, without the prior written consent of the Corporation, during the Executive's employment with the Corporation or at any time thereafter disclose to any person not employed by the Corporation, or use in connection with engaging in competition with the Corporation, any Proprietary Information of the Corporation.

(e) It is expressly understood and agreed that the Corporation's Proprietary Information is all nonpublic information relating to the Corporation's business, including but not limited to information, plans and strategies regarding suppliers, pricing, marketing, customers, hiring and terminations, employee performance and evaluations, internal reviews and investigations, short term and long range plans, acquisitions and divestitures, advertising, information systems, sales objectives and performance, as well as any other nonpublic information, the nondisclosure of which may provide a competitive or economic advantage to the Corporation. Proprietary Information shall not be deemed to have become public for purposes of this Agreement where it has been disclosed or made public by or through anyone acting in violation of a contractual, ethical, or legal responsibility to maintain its confidentiality.

(f) In the event the Executive receives a subpoena, court order or other summons that may require the Executive to disclose Proprietary Information, on pain of civil or criminal penalty, the Executive will promptly give notice to the Corporation of the subpoena or summons and provide the Corporation an opportunity to appear at the Corporation's expense and challenge the disclosure of its Proprietary Information, and the Executive shall provide reasonable cooperation to the Corporation for purposes of affording the Corporation the opportunity to prevent the disclosure of the Corporation's Proprietary Information.

3.2 *Nonsolicitation of Employees*. The Executive hereby covenants and agrees that during the Executive's employment with the Corporation and for a period equal to the Severance Period thereafter, the Executive shall not, without the prior written consent of the Corporation, on the Executive's own behalf or on the behalf of any person, firm or company, directly or indirectly, attempt to influence, persuade or induce, or assist any other person in so persuading or inducing, any of the employees of the Corporation (or any of its subsidiaries or affiliates) to give up his or her employment with the Corporation (or any of its subsidiaries or affiliates), and the Executive shall not directly or indirectly solicit or hire employees of the Corporation (or any of its subsidiaries or affiliates) for employment with any other employer.

3.3 *Noninterference with Business Relations.* The Executive hereby covenants and agrees that during the Executive's employment with the Corporation and for a period equal to the Severance Period thereafter, the Executive shall not, without the prior written consent of the Corporation, on the Executive's own behalf or on the behalf of any person, firm or company, directly or indirectly, attempt to influence, persuade or induce, or assist any other person in so persuading or inducing, any person, firm or company to cease doing business with, reduce its business with, or decline to commence a business relationship with, the Corporation (or any of its subsidiaries or affiliates).

3.4 *Noncompetition.*

(a) The Executive covenants that during the Executive's employment with the Corporation and, in the event the Executive will receive or has received the severance benefits provided for in Section 1.3, for a period equal to the Severance Period thereafter, the Executive will not undertake work for a Competing Business, as defined in Section 3.4(b). For purposes of this covenant, "undertake work for" shall include performing services, whether paid or unpaid, in any capacity, including as an officer, director, owner, consultant, employee, agent or representative, where such services involve the performance of similar duties or oversight responsibilities as those performed by the Executive at any time during the 12-month period preceding the Executive's termination from the Corporation for any reason. Notwithstanding the foregoing, the Executive may waive the benefits under Section 1.3 by providing a written notice to the Corporation's General Counsel and will then not be subject to this Section 3.4.

(b) As used in this Agreement, the term "Competing Business" shall mean any business that, at the time of the determination:

(i) operates (A) any retail department store, specialty store, or general merchandise store; (B) any retail catalog, telemarketing, or direct mail business; (C) any Internet-based or other electronic department store or general merchandise retailing business; (D) any other retail business that sells goods, merchandise, or services of the types sold by the Corporation, including its divisions, affiliates, and licensees; or (E) any business that provides buying office or sourcing services to any business of the types referred to in this Section 3.4(b)(i); and

(ii) conducts any business of the types referred to in Section 3.4(b)(i) in the United States, Commonwealth of Puerto Rico, or another country in which the Corporation, including its divisions, affiliates, and licensees, conducts a similar business.

3.5 *Injunctive Relief.* If the Executive shall breach any of the covenants contained in this Section 3, the Corporation shall have no further obligation to make any payment to the Executive pursuant to this Agreement and may recover from the Executive all such damages as it may be entitled to at law or in equity. In addition, the Executive acknowledges that any such breach is likely to result in immediate and irreparable harm to the Corporation for which money damages are likely to be inadequate. Accordingly, the Executive consents to injunctive and other appropriate equitable relief without the necessity of bond in excess of $500.00 upon the institution of proceedings therefor by the Corporation in order to protect the Corporation's rights hereunder.

4. Employment-at-Will. Notwithstanding any provision in this Agreement to the contrary, the Executive hereby acknowledges and agrees that the Executive's

employment with the Corporation is for an unspecified duration and constitutes “at-will” employment, and the Executive further acknowledges and agrees that this employment relationship may be terminated at any time, with or without Cause or for any or no Cause, at the option either of the Corporation or the Executive.

5. Miscellaneous Provisions.

5.1 *Dispute Resolution.* Any dispute between the parties under this Agreement shall be resolved (except as provided below) through informal arbitration by an arbitrator selected under the rules of the American Arbitration Association for arbitration of employment disputes (located in the city in which the Corporation’s principal executive offices are based) and the arbitration shall be conducted in that location under the rules of said Association. Each party shall be entitled to present evidence and argument to the arbitrator. The arbitrator shall have the right only to interpret and apply the provisions of this Agreement and may not change any of its provisions, except as expressly provided in Section 3.4 and only in the event the Corporation has not brought an action in a court of competent jurisdiction to enforce the covenants in Section 3. The arbitrator shall permit reasonable pre-hearing discovery of facts, to the extent necessary to establish a claim or a defense to a claim, subject to supervision by the arbitrator. The determination of the arbitrator shall be conclusive and binding upon the parties and judgment upon the same may be entered in any court having jurisdiction thereof. The arbitrator shall give written notice to the parties stating the arbitrator’s determination, and shall furnish to each party a signed copy of such determination. The expenses of arbitration shall be borne equally by the Corporation and the Executive or as the arbitrator equitably determines consistent with the application of state or federal law; provided, however, that the Executive’s share of such expenses shall not exceed the maximum permitted by law. To the extent applicable, in accordance with Code section 409A and Treasury Regulation section 1.409A-3(i)(1)(iv)(A) or any successor thereto, any payments or reimbursement of arbitration expenses which the Corporation is required to make under the foregoing provision shall meet the requirements below. The Corporation shall reimburse the Executive for any such expenses, promptly upon delivery of reasonable documentation, provided, however, all invoices for reimbursement of expenses must be submitted to the Corporation and paid in a lump sum payment by the end of the calendar year following the calendar year in which the expense was incurred. All expenses must be incurred within a 20 year period following the Separation from Service. The amount of expenses paid or eligible for reimbursement in one year under this Section 5.1 shall not affect the expenses paid or eligible for reimbursement in any other taxable year. The right to payment or reimbursement under this Section 5.1 shall not be subject to liquidation or exchange for another benefit.

**Any arbitration or action pursuant to this Section 5.1 shall be governed by and construed in accordance with the substantive laws of the State of Texas and, where applicable, federal law, without giving effect to the principles of conflict of laws of such State. The mandatory arbitration provisions of this Section 5.1 shall supersede in their entirety the J.C. Penney Alternative, a dispute resolution program generally applicable to employment terminations.**

Notwithstanding the foregoing, the Corporation shall not be required to seek or participate in arbitration regarding any actual or threatened breach of the Executive's covenants in Section 3, but may pursue its remedies, including injunctive relief, for such breach in a court of competent jurisdiction in the city in which the Corporation's principal executive offices are based, or in the sole discretion of the Corporation, in a court of competent jurisdiction where the Executive has committed or is threatening to commit a breach of the Executive's covenants, and no arbitrator may make any ruling inconsistent with the findings or rulings of such court.

5.2 *Binding on Successors; Assignment*. This Agreement shall be binding upon and inure to the benefit of the Executive, the Corporation and each of their respective successors, assigns, personal and legal representatives, executors, administrators, heirs, distributees, devisees, and legatees, as applicable; provided however, that neither this Agreement nor any rights or obligations hereunder shall be assignable or otherwise subject to hypothecation by the Executive (except by will or by operation of the laws of intestate succession) or by the Corporation except that the Corporation may assign this Agreement to any successor (whether by merger, purchase or otherwise) to all or substantially all of the stock, assets or businesses of the Corporation, if such successor expressly agrees to assume the obligations of the Corporation hereunder.

5.3 *Governing Law*. **This Agreement shall be governed, construed, interpreted, and enforced in accordance with the substantive law of the State of Texas and federal law, without regard to conflicts of law principles, except as expressly provided herein. In the event the Corporation exercises its discretion under Section 5.1 to bring an action to enforce the covenants contained in Section 3 in a court of competent jurisdiction where the Executive has breached or threatened to breach such covenants, and in no other event, the parties agree that the court may apply the law of the jurisdiction in which such action is pending in order to enforce the covenants to the fullest extent permissible.**

5.4 *Severability*. Any provision of this Agreement that is deemed invalid, illegal or unenforceable in any jurisdiction shall, as to that jurisdiction, be ineffective, to the extent of such invalidity, illegality or unenforceability, without affecting in any way the remaining provisions hereof in such jurisdiction or rendering that or any other provisions of this Agreement invalid, illegal or unenforceable in any other jurisdiction. If any covenant in Section 3 should be deemed invalid, illegal or unenforceable because its time, geographical area, or restricted activity, is considered excessive, such covenant shall be modified to the minimum extent necessary to render the modified covenant valid, legal and enforceable.

5.5 *Notices*. For all purposes of this Agreement, all communications required or permitted to be given hereunder shall be in writing and shall be deemed to have been duly given when hand delivered or dispatched by electronic facsimile transmission (with receipt thereof confirmed), or five business days after having been mailed by United States registered or certified mail, return receipt requested, postage prepaid, or three business days after having been sent by a nationally recognized overnight courier service, addressed to the Corporation at its principal executive office, c/o the Corporation's General Counsel, and to the Executive at the Executive's principal residence, or to such other address as any party may have furnished to the other in writing and in accordance herewith, except that notices of change of address shall be effective only upon receipt.

5.6 *Counterparts*. This Agreement may be executed in several counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one and the same Agreement.

5.7 *Entire Agreement*. The terms of this Agreement are intended by the parties to be the final expression of their agreement with respect to the Executive's employment by the Corporation and may not be contradicted by evidence of any prior or contemporaneous agreement. The parties further intend that this Agreement shall constitute the complete and exclusive statement of its terms and that no extrinsic evidence whatsoever may be introduced in any judicial, administrative, or other legal proceedings to vary the terms of this Agreement.

5.8 *Amendments; Waivers.* This Agreement may not be modified, amended, or terminated except by an instrument in writing, approved by the Corporation and signed by the Executive and the Corporation. Failure on the part of either party to complain of any action or omission, breach or default on the part of the other party, no matter how long the same may continue, shall never be deemed to be a waiver of any rights or remedies hereunder, at law or in equity. The Executive or the Corporation may waive compliance by the other party with any provision of this Agreement that such other party was or is obligated to comply with or perform only through an executed writing; provided, however, that such waiver shall not operate as a waiver of, or estoppel with respect to, any other or subsequent failure.

5.9 *No Inconsistent Actions*. The parties hereto shall not voluntarily undertake or fail to undertake any action or course of action that is inconsistent with the provisions or essential intent of this Agreement. Furthermore, it is the intent of the parties hereto to act in a fair and reasonable manner with respect to the interpretation and application of the provisions of this Agreement.

5.10 *Headings and Section References*. The headings used in this Agreement are intended for convenience or reference only and shall not in any manner amplify, limit, modify or otherwise be used in the construction or interpretation of any provision of this Agreement. All section references are to sections of this Agreement, unless otherwise noted.

5.11 *Beneficiaries*. The Executive shall be entitled to select (and change, to the extent permitted under any applicable law) a beneficiary or beneficiaries to receive any compensation or benefit payable hereunder following the Executive's death, and may change such election, in either case by giving the Corporation written notice thereof in accordance with Section 5.5. In the event of the Executive's death or a judicial determination of the Executive's incompetence, reference in this Agreement to the "Executive" shall be deemed, where appropriate, to be the Executive's beneficiary, estate or other legal representative.

5.12 *Withholding*. The Corporation shall be entitled to withhold from payment any amount of withholding required by law.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date and year first above written.

**J. C. PENNEY CORPORATION, INC.**

By:
Name:
Title:

**EXECUTIVE**

____________________________________

**Exhibit 31.1**

**CERTIFICATION**

I, Myron E. Ullman, III, certify that:

1. I have reviewed this quarterly report on Form 10-Q of J. C. Penney Company, 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; and

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 the 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.

Date: December 5, 2013

/s/ Myron E. Ullman, III
Myron E. Ullman, III
Chief Executive Officer

**Exhibit 31.2**

**<u>CERTIFICATION</u>**

I, Kenneth H. Hannah, certify that:

1. I have reviewed this quarterly report on Form 10-Q of J. C. Penney Company, 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; and

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 the 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.

Date: December 5, 2013

<u>/s/ Kenneth H. Hannah</u>
Kenneth H. Hannah
Executive Vice President and Chief Financial Officer

**Exhibit 32.1**

**CERTIFICATION 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 Quarterly Report of J. C. Penney Company, Inc. (the "Company") on Form 10-Q for the period ended November 2, 2013 (the "Report"), I, Myron E. Ullman, III, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my 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.

DATED this 5th day of December 2013.

/s/ Myron E. Ullman, III
Myron E. Ullman, III
Chief Executive Officer

**Exhibit 32.2**

**CERTIFICATION 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 Quarterly Report of J. C. Penney Company, Inc. (the “Company”) on Form 10-Q for the period ended November 2, 2013 (the “Report”), I, Kenneth H. Hannah, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my 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.

DATED this 5th day of December 2013.

/s/ Kenneth H. Hannah
Kenneth H. Hannah
Executive Vice President and Chief Financial Officer