

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 August 4, 2018
or

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

For the transition period from _____ to _____

Commission File Number: 1-15274

JCPenney

J. C. PENNEY COMPANY, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

26-0037077

(I.R.S. Employer Identification No.)

6501 Legacy Drive, Plano, Texas

(Address of principal executive offices)

75024 - 3698

(Zip Code)

(972) 431-1000

(Registrant's telephone number, including area code)

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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

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

Smaller reporting company

Emerging growth company

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. 314,895,764 shares of Common Stock of 50 cents par value, as of August 31, 2018.

J. C. PENNEY COMPANY, INC.
FORM 10-Q
For the Quarterly Period Ended August 4, 2018
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Part I. Financial Information

Item 1. Unaudited Interim Consolidated Financial Statements

**J. C. PENNEY COMPANY, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)**

	Three Months Ended		Six Months Ended	
	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017
		As Adjusted		As Adjusted
<i>(In millions, except per share data)</i>				
Total net sales	\$ 2,762	\$ 2,985	\$ 5,346	\$ 5,686
Credit income and other	67	83	154	166
Total revenues	2,829	3,068	5,500	5,852
Costs and expenses/(income):				
Cost of goods sold (exclusive of depreciation and amortization shown separately below)	1,831	1,932	3,543	3,657
Selling, general and administrative (SG&A)	880	935	1,706	1,873
Depreciation and amortization	140	144	281	289
Real estate and other, net	12	(19)	(6)	(137)
Restructuring and management transition	2	23	9	123
Total costs and expenses	2,865	3,015	5,533	5,805
Operating income/(loss)	(36)	53	(33)	47
Other components of net periodic pension cost/(income)	(19)	(14)	(38)	92
(Gain)/loss on extinguishment of debt	—	35	23	35
Net interest expense	79	79	157	166
Income/(loss) before income taxes	(96)	(47)	(175)	(246)
Income tax expense/(benefit)	5	1	4	(11)
Net income/(loss)	\$ (101)	\$ (48)	\$ (179)	\$ (235)
Earnings/(loss) per share:				
Basic	\$ (0.32)	\$ (0.15)	\$ (0.57)	\$ (0.76)
Diluted	\$ (0.32)	\$ (0.15)	\$ (0.57)	\$ (0.76)
Weighted average shares – basic	315.7	310.8	314.8	310.2
Weighted average shares – diluted	315.7	310.8	314.8	310.2

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

J. C. PENNEY COMPANY, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)
(Unaudited)

(\$ in millions)	Three Months Ended		Six Months Ended	
	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017
		As Adjusted		As Adjusted
Net income/(loss)	\$ (101)	\$ (48)	\$ (179)	\$ (235)
Other comprehensive income/(loss), net of tax:				
Retirement benefit plans				
Net actuarial gain/(loss) arising during the period ⁽¹⁾	—	—	—	5
Reclassification for amortization of prior service (credit)/cost ⁽²⁾	1	1	2	2
Net curtailment gain ⁽³⁾	—	—	—	20
Cash flow hedges				
Gain/(loss) on interest rate swaps ⁽⁴⁾	—	(3)	5	(6)
Reclassification for periodic settlements ⁽⁵⁾	—	2	—	4
Foreign currency translation				
Unrealized (gain)/loss	—	2	—	2
Total other comprehensive income/(loss), net of tax	1	2	7	27
Total comprehensive income/(loss), net of tax	\$ (100)	\$ (46)	\$ (172)	\$ (208)

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

- (1) Net of \$(4) million in tax in the six months ended July 29, 2017.
- (2) Net of \$(1) million and \$(2) million in tax in each of the three and six months ended August 4, 2018 and July 29, 2017, respectively. Pre-tax amounts of \$2 million and \$4 million in the three and six months ended August 4, 2018 and July 29, 2017, respectively, were recognized in Other components of net periodic pension cost/(income) in the Consolidated Statements of Operations.
- (3) Net of \$(11) million in tax in the six months ended July 29, 2017. Pre-tax prior service cost of \$5 million related to the curtailment is included in Other components of net periodic pension cost/(income) in the Consolidated Statements of Operations in the six months ended July 29, 2017.
- (4) Net of \$(1) million of tax in the six months ended August 4, 2018 and net of \$2 million and \$3 million of tax in the three and six months ended July 29, 2017, respectively.
- (5) Net of \$(1) million and \$(2) million of tax in the three and six months ended July 29, 2017, respectively, and \$3 million and \$6 million in pre-tax amounts for the three and six months ended July 29, 2017, respectively, were recognized in Net interest expense in the Consolidated Statements of Operations.

**J. C. PENNEY COMPANY, INC.
CONSOLIDATED BALANCE SHEETS**

	August 4, 2018	July 29, 2017	February 3, 2018
	(Unaudited)	(Unaudited)	
		As Adjusted	
<i>(In millions, except per share data)</i>			
Assets			
Current assets:			
Cash in banks and in transit	\$ 171	\$ 186	\$ 116
Cash short-term investments	11	128	342
Cash and cash equivalents	182	314	458
Merchandise inventory	2,824	2,820	2,803
Prepaid expenses and other	221	223	190
Total current assets	3,227	3,357	3,451
Property and equipment (net of accumulated depreciation of \$3,293, \$3,610 and \$3,500)	4,058	4,390	4,281
Prepaid pension	87	—	61
Other assets	686	622	661
Total Assets	\$ 8,058	\$ 8,369	\$ 8,454
Liabilities and Stockholders' Equity			
Current liabilities:			
Merchandise accounts payable	\$ 910	\$ 950	\$ 973
Other accounts payable and accrued expenses	1,025	1,121	1,156
Current portion of capital leases, financing obligation and note payable	7	9	8
Current maturities of long-term debt	42	232	232
Total current liabilities	1,984	2,312	2,369
Long-term capital leases, financing obligation and note payable	208	216	212
Long-term debt	3,960	3,836	3,780
Deferred taxes	144	202	143
Other liabilities	546	635	567
Total Liabilities	6,842	7,201	7,071
Stockholders' Equity			
Common stock ⁽¹⁾	157	155	156
Additional paid-in capital	4,709	4,694	4,705
Reinvested earnings/(accumulated deficit)	(3,297)	(3,235)	(3,118)
Accumulated other comprehensive income/(loss)	(353)	(446)	(360)
Total Stockholders' Equity	1,216	1,168	1,383
Total Liabilities and Stockholders' Equity	\$ 8,058	\$ 8,369	\$ 8,454

(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 314.8 million, 310.3 million and 312.0 million as of August 4, 2018, July 29, 2017 and February 3, 2018, 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)	Six Months Ended	
	August 4, 2018	July 29, 2017
		<u>As Adjusted</u>
Cash flows from operating activities		
Net income/(loss)	\$ (179)	\$ (235)
Adjustments to reconcile net income/(loss) to net cash provided by/(used in) operating activities:		
Restructuring and management transition	(3)	73
Asset impairments and other charges	52	3
Net gain on sale of operating assets	(57)	(118)
(Gain)/loss on extinguishment of debt	23	35
Depreciation and amortization	281	289
Benefit plans	(37)	96
Stock-based compensation	6	16
Deferred taxes	(1)	(19)
Change in cash from:		
Inventory	(21)	76
Prepaid expenses and other	(21)	(64)
Merchandise accounts payable	(63)	(27)
Income taxes	—	3
Accrued expenses and other	(115)	(72)
Net cash provided by/(used in) operating activities	<u>(135)</u>	<u>56</u>
Cash flows from investing activities		
Capital expenditures	(221)	(192)
Net proceeds from sale of operating assets	121	146
Joint venture return of investment	—	9
Net cash provided by/(used in) investing activities	<u>(100)</u>	<u>(37)</u>
Cash flows from financing activities		
Proceeds from issuance of long-term debt	400	—
Proceeds from borrowings under the credit facility	2,258	272
Payments of borrowings under the credit facility	(2,081)	(272)
Premium on early retirement of debt	(20)	(30)
Payments of capital leases, financing obligation and note payable	(4)	(12)
Payments of long-term debt	(586)	(541)
Financing costs	(7)	(9)
Proceeds from stock issued under stock plans	2	3
Tax withholding payments for vested restricted stock	(3)	(3)
Net cash provided by/(used in) financing activities	<u>(41)</u>	<u>(592)</u>
Net increase/(decrease) in cash and cash equivalents	(276)	(573)
Cash and cash equivalents at beginning of period	458	887
Cash and cash equivalents at end of period	<u>\$ 182</u>	<u>\$ 314</u>
Supplemental cash flow information		
Income taxes received/(paid), net	\$ (5)	\$ (5)
Interest received/(paid), net	(145)	(163)
Supplemental non-cash investing and financing activity		
Increase/(decrease) in other accounts payable related to purchases of property and equipment and software	(20)	6

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 3, 2018 (2017 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 2017 Form 10-K. The February 3, 2018 financial information was derived from the audited Consolidated Financial Statements, with related footnotes, included in the 2017 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 August 4, 2018” and “second quarter of 2018” refers to the 13-week period ended August 4, 2018, and “three months ended July 29, 2017” and “second quarter of 2017” refers to the 13-week period ended July 29, 2017. “Six months ended August 4, 2018” and “six months ended July 29, 2017” refer to the 26-week periods ended August 4, 2018 and July 29, 2017, respectively. Fiscal year 2018 contains 52 weeks, and fiscal year 2017 contains 53 weeks.

Basis of Consolidation

All significant inter-company transactions and balances have been eliminated in consolidation. Certain reclassifications were made to prior period amounts to conform to the current period presentation.

2. Changes in Accounting for Revenue Recognition and Retirement-Related Benefits

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Codification (ASC) Topic 606 (ASC 606), *Revenue from Contracts with Customers, a replacement of Revenue Recognition (Topic 605)*. The new revenue recognition standard provides a five-step analysis of transactions to determine when and how revenue is recognized. The core principle of the guidance is that a Company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. We have adopted the new standard using the full retrospective approach on February 4, 2018, and with such adoption our revenue recognition policies related to gift card breakage, customer loyalty programs, credit card income and principal versus agent considerations were changed. Whereas we previously recognized gift card breakage, net of required escheatment, 60 months after the gift card was issued, we now recognize gift card breakage, net of required escheatment, over the redemption pattern of gift cards. Additionally, whereas we utilized the incremental cost method to account for our customer loyalty programs, we now account for our customer loyalty programs as revenue and are required to defer a portion of our sales to loyalty rewards to be earned by reward members for a future discount on a future sale.

We also changed the classification of profit sharing income earned in connection with our private label credit card and co-branded MasterCard® programs owned and serviced by Synchrony Financial (Synchrony). Under our agreement with Synchrony, we receive cash payments from Synchrony based upon the performance of the credit card portfolios. Previously,

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the income we earned under our agreement with Synchrony was included as an offset to SG&A expenses. In connection with the adoption of the new standard, we changed our presentation to include such income in a separate line item described as Credit income and other. Further, we adjusted our principal versus agent considerations for certain contracts and where we previously considered ourselves to be the agent (report net sales) under these contracts based on the risk and rewards of the arrangement, we now consider ourselves to be the principal (report gross sales) based on our control of the good or service before it is transferred to the customer. Lastly, we changed our balance sheet presentation of our sales return liability and where we previously reflected the balance as a net liability, we now recognize a gross refund liability for the sales amounts expected to be refunded to customers and an asset for the recoverable cost of the merchandise expected to be returned by customers.

In March 2017, the FASB issued Accounting Standards Update (ASU) 2017-07, *Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. ASU 2017-07 requires companies to present the service cost component of net periodic pension cost in the same line items in which they report compensation cost. Companies will present all other components of net periodic pension cost outside of operating income, if this subtotal is presented. As required by the standard, we retrospectively adopted ASU 2017-07 on February 4, 2018, and we changed the presentation of our Consolidated Statement of Operations to exclude the Pension line item and to reflect the service cost component of our pension expense/(income) in SG&A and to reflect all other cost components in a new separate line item below operating income/(loss) described as Other components of net periodic pension cost/(income).

These changes have been reported through retrospective application of the new policies to all periods presented. The impacts of all adjustments made to the financial statements are summarized below:

Consolidated Statements of Operations

	Three Months Ended			Six Months Ended		
	July 29, 2017			July 29, 2017		
	Previously Reported	As Adjusted	Effect of Change	Previously Reported	As Adjusted	Effect of Change
<i>(\$ in millions, except per share data)</i>						
Total net sales	\$ 2,962	\$ 2,985	\$ 23	\$ 5,668	\$ 5,686	\$ 18
Credit income and other	—	83	83	—	166	166
Cost of goods sold (exclusive of depreciation and amortization)	1,923	1,932	9	3,646	3,657	11
Selling, general and administrative (SG&A)	842	935	93	1,685	1,873	188
Pension	(4)	—	4	(6)	—	6
Restructuring and management transition	23	23	—	243	123	(120)
Operating income/(loss)	53	53	—	(52)	47	99
Other components of net periodic pension cost/(income)	—	(14)	(14)	—	92	92
Income/(loss) before income taxes	(61)	(47)	14	(253)	(246)	7
Net income/(loss)	\$ (62)	\$ (48)	\$ 14	\$ (242)	\$ (235)	\$ 7
Basic earnings/(loss) per common share	\$ (0.20)	\$ (0.15)	\$ 0.05	\$ (0.78)	\$ (0.76)	\$ 0.02
Diluted earnings/(loss) per common share	\$ (0.20)	\$ (0.15)	\$ 0.05	\$ (0.78)	\$ (0.76)	\$ 0.02

Consolidated Statements of Comprehensive Income/(Loss)

	Three Months Ended			Six Months Ended		
	July 29, 2017			July 29, 2017		
	Previously Reported	As Adjusted	Effect of Change	Previously Reported	As Adjusted	Effect of Change
<i>(\$ in millions)</i>						
Net income/(loss)	\$ (62)	\$ (48)	\$ 14	\$ (242)	\$ (235)	\$ 7

Consolidated Balance Sheets

(\$ in millions)	July 29, 2017			February 3, 2018		
	Previously Reported	As Adjusted	Effect of Change	Previously Reported	As Adjusted	Effect of Change
Merchandise inventory	\$ 2,777	\$ 2,820	\$ 43	\$ 2,762	\$ 2,803	\$ 41
Other accounts payable and accrued expenses	1,091	1,121	30	1,119	1,156	37
Reinvested earnings/(accumulated deficit)	(3,248)	(3,235)	13	(3,122)	(3,118)	4

Consolidated Statements of Cash Flows

(\$ in millions)	Six Months Ended		
	July 29, 2017		
	Previously Reported	As Adjusted	Effect of Change
Cash flows from operating activities:			
Net income/(loss)	\$ (242)	\$ (235)	\$ 7
Inventory	77	76	(1)
Accrued expenses and other	(66)	(72)	(6)

3. Effect of New Accounting Standards

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the FASB Emerging Issues Task Force)* (ASU 2016-15). ASU 2016-15 clarifies how entities should classify certain cash receipts and cash payments on the statement of cash flows. The guidance also clarifies how the predominance principle should be applied when cash receipts and cash payments have aspects of more than one class of cash flows. The guidance is effective for fiscal years beginning after December 15, 2017, and interim periods therein. Entities should apply the guidance retrospectively, but if it is impracticable to do so for an issue, the amendments related to that issue may be applied prospectively. We have adopted ASU 2016-15 on February 4, 2018 and it did not have a significant impact on our accounting and disclosures.

In February 2016, the FASB issued ASC Topic 842, *Leases (Topic 842), a replacement of Leases (Topic 840) and updated by various targeted improvements*, which will require lessees to recognize most leases on their balance sheets as lease liabilities with corresponding right-of-use assets. While many aspects of lessor accounting would remain the same, the new standard would make some changes, such as eliminating today's real estate-specific guidance. As a globally converged standard, lessees and lessors would be required to classify most leases using a principle generally consistent with that of International Accounting Standards. The standard also would change what would be considered the initial direct costs of a lease. The standard would be effective for annual periods beginning after December 15, 2018 and interim periods within that year and must be adopted by a modified retrospective method, with elective reliefs, which requires application of the new guidance for all periods presented, or by an optional transition method, which would allow the application of current legacy guidance, including its disclosure requirements, in the comparative periods presented in the year of adoption. The Company plans to use the optional transition method when adopting the new standard.

We have developed a project team to analyze the impacts of the new standard on our current accounting policies and internal controls and the changes required to be made by our leasing software provider. With almost 70% of our store locations involved in an operating lease, the new standard will have a significant impact on our financial statements due to the recognition of lease liabilities and right-of-use assets that are not required by the current accounting requirements for operating leases. Given the magnitude of the project to implement the new standard, we are still evaluating the effect that the new accounting guidance will have on our financial condition, results of operations and cash flows.

4. Revenue

Our contracts with customers primarily consist of sales of merchandise and services at the point of sale, sales of gift cards to a customer for a future purchase, customer loyalty rewards that provide discount rewards to customers based on purchase activity, and certain licensing and profit sharing arrangements involving the use of our intellectual property by others.

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Revenue includes Total net sales and Credit income and other. Net sales are categorized by merchandise and service sale groupings as we believe it best depicts the nature, amount, timing and uncertainty of revenue and cash flow.

The following table provides the components of Net sales for the three and six months ended August 4, 2018 and July 29, 2017:

(\$ in millions)	Three Months Ended				Six Months Ended			
	August 4, 2018		July 29, 2017		August 4, 2018		July 29, 2017	
			As Adjusted				As Adjusted	
Women's apparel	\$ 694	25%	\$ 748	25%	\$ 1,308	25%	\$ 1,426	25%
Men's apparel and accessories	563	20%	618	21%	1,063	20%	1,147	20%
Home	361	13%	415	14%	716	13%	790	14%
Women's accessories, including Sephora	345	13%	365	12%	700	13%	722	13%
Children's, including toys	241	9%	246	8%	448	8%	473	8%
Footwear and handbags	227	8%	251	8%	440	8%	483	8%
Jewelry	151	5%	149	5%	312	6%	308	6%
Services and other	180	7%	193	7%	359	7%	337	6%
Total net sales	\$ 2,762	100%	\$ 2,985	100%	\$ 5,346	100%	\$ 5,686	100%

Credit income and other encompasses the revenue earned from the agreement with Synchrony associated with our private label credit card and co-branded MasterCard® programs.

Merchandise and Service Sales

Total net sales, which exclude sales taxes and are net of estimated returns, are generally recorded when payment is received and the customer takes control of the merchandise. Service revenue is recorded at the time the customer receives the benefit of the service, such as salon, portrait, optical or custom decorating. Shipping and handling fees charged to customers are also included in total net sales with corresponding costs recorded as cost of goods sold. Net sales are not recognized for estimated future returns which are estimated based primarily on historical return rates and sales levels.

Gift Card Revenue

At the time gift cards are sold a performance obligation is created and no revenue is recognized; rather, a contract liability is established for our obligation to provide a merchandise or service sale to the customer for the face value of the card. The contract liability is relieved and a net sale is recognized when gift cards are redeemed for merchandise or services. We recognize gift card breakage, net of required escheatment, over the redemption pattern of gift cards. Breakage is estimated based on historical redemption patterns and the estimates can vary based on changes in the usage patterns of our customers.

Customer Loyalty Rewards

Customers who spend a certain amount with us using our private label card or registered loyalty card receive points that can accumulate towards earning JCPenney Rewards certificates which are redeemable for a discount on future purchases. Points earned by a loyalty customer do not expire but any certificates earned expire two months from the date of issuance. We account for our customer loyalty rewards by deferring a portion of our sales to loyalty points expected to be earned towards a reward certificate, and then recognize the reward certificate as a net sale when used by the customer in connection with a merchandise or service sale. The points earned toward a future reward are valued at their relative standalone selling price by applying fair value based on historical redemption patterns.

The liabilities related to our gift cards and our customer loyalty program are included in Other accounts payable and accrued expenses in the unaudited Interim Consolidated Balance Sheets and constitute our contract liability. The balance of these liabilities were as follows:

(in millions)	August 4, 2018	July 29, 2017	February 3, 2018
Gift cards	\$ 116	\$ 118	\$ 144
Loyalty rewards	62	76	73
Total contract liability	\$ 178	\$ 194	\$ 217

Contract liability includes consideration received for gift card and loyalty related performance obligations which have not been satisfied as of a given date.

A rollforward of the amounts included in contract liability for the first six months of 2018 and 2017 are as follows:

<i>(in millions)</i>	2018	2017
Beginning balance	\$ 217	\$ 228
Current period gift cards sold and loyalty reward points earned	148	209
Net sales from amounts included in contract liability opening balances	(59)	(68)
Net sales from current period usage	(128)	(175)
Ending balance	<u>\$ 178</u>	<u>\$ 194</u>

Licensing Agreements

Our private label credit card and co-branded MasterCard® programs are owned and serviced by Synchrony. Under our agreement with Synchrony, we receive periodic cash payments from Synchrony based upon the consumer's usage of co-branded card and the performance of the credit card portfolio. We participate in the programs by providing marketing promotions designed to increase the use of each card, including enhanced marketing offers for cardholders. Additionally, we accept payments in our stores from cardholders who prefer to pay in person when they are shopping in our locations. Revenue related to this agreement is recognized over the time we have fulfilled our deliverables and is reflected in Credit income and other.

Principal Versus Agent

We assess principal versus agent considerations depending on our control of the good or service before it is transferred to the customer. When we are the principal and have control of the specified good or service, we include as a net sale the gross amount of consideration to which we expect to be entitled for that specified good or service in revenue. In contrast, when we are the agent and do not have control of the specified good or service, we include as a net sale the fee or commission to which we expect to be entitled for the agency service. In certain instances, the fee or commission might be the net amount retained after paying the supplier.

5. Earnings/(Loss) per Share

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

<i>(in millions, except per share data)</i>	Three Months Ended		Six Months Ended	
	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017
Earnings/(loss)				
Net income/(loss)	\$ (101)	\$ (48)	\$ (179)	\$ (235)
Shares				
Weighted average common shares outstanding (basic shares)	315.7	310.8	314.8	310.2
Adjustment for assumed dilution:				
Stock options, restricted stock awards and warrant	—	—	—	—
Weighted average shares assuming dilution (diluted shares)	<u>315.7</u>	<u>310.8</u>	<u>314.8</u>	<u>310.2</u>
EPS				
Basic	\$ (0.32)	\$ (0.15)	\$ (0.57)	\$ (0.76)
Diluted	\$ (0.32)	\$ (0.15)	\$ (0.57)	\$ (0.76)

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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		Six Months Ended	
	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017
(Shares in millions)				
Stock options, restricted stock awards and warrant	25.6	33.5	27.2	33.3

6. Long-Term Debt

(\$ in millions)	August 4, 2018	July 29, 2017	February 3, 2018
Issue:			
5.75% Senior Notes Due 2018 ⁽¹⁾	\$ —	\$ 190	\$ 190
8.125% Senior Notes Due 2019 ⁽¹⁾	50	175	175
5.65% Senior Notes Due 2020 ⁽¹⁾	110	400	360
2017 Credit Facility (Matures in 2022)	177	—	—
2016 Term Loan Facility (Matures in 2023)	1,604	1,646	1,625
5.875% Senior Secured Notes Due 2023 ⁽¹⁾	500	500	500
7.125% Debentures Due 2023	10	10	10
8.625% Senior Secured Second Priority Notes Due 2025 ⁽¹⁾	400	—	—
6.9% Notes Due 2026	2	2	2
6.375% Senior Notes Due 2036 ⁽¹⁾	388	388	388
7.4% Debentures Due 2037	313	313	313
7.625% Notes Due 2097	500	500	500
Total debt	4,054	4,124	4,063
Unamortized debt issuance costs	(52)	(56)	(51)
Less: current maturities	(42)	(232)	(232)
Total long-term debt	\$ 3,960	\$ 3,836	\$ 3,780

(1) These debt issuances contain a change of control provision that would obligate us, at the holders' option, to repurchase the debt at a price of 101%.

On March 12, 2018, JCP issued \$400 million aggregate principal amount of senior secured second priority notes with a 8.625% interest rate (the "Notes"). The Notes are due in 2025 and are guaranteed, jointly and severally, by the Company and certain domestic subsidiaries of JCP that guarantee the Company's senior secured term loan facility and existing senior secured notes. The net proceeds from the Notes were used for the tender consideration for JCP's contemporaneous cash tender offers for \$125 million aggregate principal amount of its 8.125% Senior Notes Due 2019 and \$250 million aggregate principal amount of its 5.65% Senior Notes Due 2020 (collectively, the Securities). In doing so, we recognized a loss on extinguishment of debt of \$23 million which includes the premium paid over the face value of the accepted Securities of \$20 million, reacquisition costs of \$1 million and the write off of unamortized debt issuance costs of \$2 million.

As of August 4, 2018, outstanding borrowings under our \$2.35 billion senior secured asset-based revolving credit facility (2017 Credit Facility) were \$177 million. All borrowings under the 2017 Credit Facility accrue interest at a rate equal to, at the Company's option, a base rate or an adjusted LIBOR rate plus a spread.

7. Derivative Financial Instruments

We use derivative financial instruments for hedging and non-trading purposes to manage our exposure to changes in interest rates. Use of derivative financial instruments in hedging programs subjects us to certain risks, such as market and credit risks. Market risk represents the possibility that the value of the derivative instrument will change. In a hedging relationship, the change in the value of the derivative is offset to a great extent by the change in the value of the underlying hedged item. Credit risk related to derivatives represents the possibility that the counterparty will not fulfill the terms of the contract. The notional,

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or contractual, amount of our derivative financial instruments is used to measure interest to be paid or received and does not represent our exposure due to credit risk. Credit risk is monitored through established approval procedures, including setting concentration limits by counterparty, reviewing credit ratings and requiring collateral (generally cash) from the counterparty when appropriate.

When we use derivative financial instruments for the purpose of hedging our exposure to interest rates, the contract terms of a hedged instrument closely mirror those of the hedged item, providing a high degree of risk reduction and correlation. Contracts that are effective at meeting the risk reduction and correlation criteria are recorded using hedge accounting. If a derivative instrument is a hedge, depending on the nature of the hedge, changes in the fair value of the instrument will either be offset against the change in fair value of the hedged assets, liabilities or firm commitments through earnings or be recognized in Accumulated other comprehensive income/(loss) until the hedged item is recognized in earnings. The ineffective portion of an instrument's change in fair value will be immediately recognized in earnings during the period. Instruments that do not meet the criteria for hedge accounting, or contracts for which we have not elected to apply hedge accounting, are valued at fair value with unrealized gains or losses reported in earnings during the period of change.

We have entered into interest rate swap agreements with notional amounts totaling \$1,250 million to fix a portion of our variable LIBOR-based interest payments. The interest rate swap agreements have a weighted-average fixed rate of 2.04%, mature on May 7, 2020 and have been designated as cash flow hedges.

The fair value of our interest rate swaps are recorded on the unaudited Interim Consolidated Balance Sheets as an asset or a liability (see Note 9). The effective portion of the interest rate swaps' changes in fair values is reported in Accumulated other comprehensive income/(loss) (see Note 10), and the ineffective portion is reported in Net income/(loss). Amounts in Accumulated other comprehensive income/(loss) are reclassified into Net income/(loss) when the related interest payments affect earnings. For the periods presented, all of the interest rate swaps were 100% effective.

Information regarding the gross amounts of our derivative instruments in the unaudited Interim Consolidated Balance Sheets is as follows:

	Asset Derivatives at Fair Value				Liability Derivatives at Fair Value			
	Balance Sheet Location	August 4, 2018	July 29, 2017	February 3, 2018	Balance Sheet Location	August 4, 2018	July 29, 2017	February 3, 2018
<i>(\$ in millions)</i>								
Derivatives designated as hedging instruments:								
Interest rate swaps	Prepaid expenses and other	\$ 1	\$ —	\$ —	Other accounts payable and accrued expenses	\$ —	\$ 2	\$ 1
Interest rate swaps	Other assets	16	—	9	Other liabilities	—	13	—
Total derivatives designated as hedging instruments		\$ 17	\$ —	\$ 9		\$ —	\$ 15	\$ 1

8. Restructuring and Management Transition

In the first quarter of 2017, the Company finalized plans to close 138 stores to help align the Company's brick-and-mortar presence with its omnichannel network, thereby redirecting capital resources to invest in locations and initiatives that offer the greatest revenue potential. The store closures resulted in a \$77 million asset impairment charge for store assets with limited future use and a \$14 million severance charge for the expected displacement of store associates.

The components of Restructuring and management transition include:

- **Home office and stores** — charges for actions to reduce our store and home office expenses including employee termination benefits, store lease termination and impairment charges;

- **Management transition** — charges related to implementing changes within our management leadership team for both incoming and outgoing members of management; and
- **Other** — charges related primarily to contract termination costs and costs related to the closure of certain supply chain locations.

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

(\$ in millions)	Three Months Ended		Six Months Ended		Cumulative Amount From Program Inception Through August 4, 2018
	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017	
Home office and stores	2	23	\$ 9	\$ 121	\$ 482
Other	—	—	—	2	185
Total	\$ 2	\$ 23	\$ 9	\$ 123	\$ 667

Activity for the Restructuring and management transition liability for the six months ended August 4, 2018 was as follows:

(\$ in millions)	Home Office and Stores	Other	Total
February 3, 2018	\$ 34	\$ 7	\$ 41
Charges	12	—	12
Cash payments	(25)	(1)	(26)
August 4, 2018	\$ 21	\$ 6	\$ 27

9. 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.

Cash Flow Hedges Measured on a Recurring Basis

As of August 4, 2018, July 29, 2017 and February 3, 2018, the \$16 million, \$(13) million and \$9 million fair value of our cash flow hedges, respectively, are valued in the market using discounted cash flow techniques which use quoted market interest rates in discounted cash flow calculations which consider the instrument's term, notional amount, discount rate and credit risk. Significant inputs to the derivative valuation for interest rate swaps are observable in the active markets and are classified as Level 2 in the fair value measurement hierarchy.

Other Non-Financial Assets Measured on a Non-Recurring Basis

In connection with the Company announcing its plan to close underperforming department stores in 2017, long-lived assets held and used with a carrying value of \$86 million were written down to their fair value of \$9 million, resulting in asset impairment charges of \$77 million in the six months ended July 29, 2017. The fair value was determined based on comparable market values of similar properties or on a rental income approach and the significant inputs related to valuing the store related assets are classified as Level 2 in the fair value measurement hierarchy.

In connection with the Company's decision to sell its three airplanes, long-lived assets held and used with a carrying value of \$72 million were written down to their fair value of \$20 million, resulting in asset impairment charges of \$52 million in the

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three months ended August 4, 2018. The fair value was determined based on dealer quotes using a market approach and the significant inputs related to valuing the airplanes are classified as Level 2 in the fair value measurement hierarchy.

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:

	August 4, 2018		July 29, 2017		February 3, 2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<i>(\$ in millions)</i>						
Total debt, excluding unamortized debt issuance costs, capital leases, financing obligation and note payable	\$ 4,054	\$ 3,385	\$ 4,124	\$ 3,817	\$ 4,063	\$ 3,607

The fair value of long-term debt was estimated by obtaining quotes from brokers or was based on current rates offered for similar debt. As of August 4, 2018, July 29, 2017 and February 3, 2018, the fair values of cash and cash equivalents and accounts payable approximated their carrying values due to the short-term nature of these instruments.

Concentrations of Credit Risk

We have no significant concentrations of credit risk.

10. Stockholders' Equity

The following table shows the change in the components of stockholders' equity for the six months ended August 4, 2018:

<i>(in millions)</i>	Number of Common Shares	Common Stock	Additional Paid-in Capital	Reinvested Earnings/ (Accumulated Deficit)	Accumulated Other Comprehensive Income/(Loss)	Total Stockholders' Equity
February 3, 2018	312.0	\$ 156	\$ 4,705	\$ (3,118)	\$ (360)	\$ 1,383
Net income/(loss)	—	—	—	(179)	—	(179)
Other comprehensive income/(loss)	—	—	—	—	7	7
Stock-based compensation and other	2.8	1	4	—	—	5
August 4, 2018	314.8	\$ 157	\$ 4,709	\$ (3,297)	\$ (353)	\$ 1,216

Accumulated Other Comprehensive Income/(Loss)

The following table shows the changes in accumulated other comprehensive income/(loss) balances for the six months ended August 4, 2018:

<i>(\$ in millions)</i>	Net Actuarial Gain/(Loss)	Prior Service Credit/(Cost)	Gain/(Loss) on Cash Flow Hedges	Accumulated Other Comprehensive Income/(Loss)
February 3, 2018	\$ (330)	\$ (26)	\$ (4)	\$ (360)
Other comprehensive income/(loss) before reclassifications	—	—	5	5
Amounts reclassified from accumulated other comprehensive income	—	2	—	2
August 4, 2018	\$ (330)	\$ (24)	\$ 1	\$ (353)

11. Retirement Benefit Plans

The components of net periodic pension expense/(income) for our non-contributory qualified defined benefit pension plan and supplemental pension plans were as follows:

(\$ in millions)	Three Months Ended		Six Months Ended	
	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017
Service cost	\$ 10	\$ 10	\$ 19	\$ 21
Other components of net periodic pension cost/(income):				
Interest cost	35	37	70	76
Expected return on plan assets	(56)	(53)	(112)	(107)
Amortization of prior service cost/(credit)	2	2	4	4
Settlement expense	—	—	—	—
Curtailement (gain)/loss recognized	—	—	—	7
Special termination benefit recognized	—	—	—	112
	(19)	(14)	(38)	92
Net periodic pension expense/(income)	\$ (9)	\$ (4)	\$ (19)	\$ 113

Service cost is included in SG&A in the unaudited Interim Consolidated Statements of Operations.

In the first quarter of 2017, the Company initiated a Voluntary Early Retirement Program (VERP) for approximately 6,000 eligible associates. Eligibility for the VERP included home office, stores and supply chain personnel who met certain criteria related to age and years of service as of January 31, 2017. Based on the approximately 2,800 associates who elected to accept the VERP, we incurred a total charge of \$112 million for special retirement benefits. The special retirement benefits increased the projected benefit obligation (PBO) of the qualified defined benefit pension plan (Primary Pension Plan) and the supplemental pension plans by \$88 million and \$24 million, respectively. In addition, we incurred curtailment charges of \$7 million related to our pension plans as a result of the reduction in the expected years of future service related to these plans. As a result of these curtailments, the assets and the liabilities for our Primary Pension Plan and the liabilities of certain supplemental pension plans were remeasured as of March 31, 2017. The discount rate used for the March 31 remeasurements was 4.34% compared to the year-end 2016 discount rate of 4.40%. These events resulted in the PBO of our Primary Pension Plan decreasing by \$3 million and the related assets increasing by \$34 million and the PBO of our supplemental pension plans increasing by \$3 million. The funded status of the Primary Pension Plan was 98% as of the remeasurement date.

12. Real Estate and Other, Net

Real estate and other consists of ongoing operating income from our real estate subsidiaries. Real estate and other also includes net gains from the sale of facilities and equipment that are no longer used in operations, asset impairments, accruals for certain litigation and other non-operating charges and credits. In addition, we entered into a joint venture in 2014 in which we contributed approximately 220 acres of excess property adjacent to our home office facility in Plano, Texas (Home Office Land Joint Venture). The joint venture was formed to develop the contributed property and our proportional share of the joint venture's activities is recorded in Real estate and other, net.

The composition of Real estate and other, net was as follows:

(\$ in millions)	Three Months Ended		Six Months Ended	
	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017
Investment income from Home Office Land Joint Venture	\$ (1)	\$ (19)	\$ (1)	\$ (20)
Net gain from sale of operating assets	(40)	(1)	(57)	(118)
Impairments	52	—	52	—
Other	1	1	—	1
Total expense/(income)	\$ 12	\$ (19)	\$ (6)	\$ (137)

Investment Income from Joint Ventures

During the three and six months ended August 4, 2018, the Company had income of \$1 million related to its proportional share of the net income in the Home Office Land Joint Venture and received an aggregate cash distribution of \$1 million. During the three and six months ended July 29, 2017, the Company had income of \$19 million and \$20 million, respectively, related to its proportional share of the net income in the Home Office Land Joint Venture and received aggregate cash distributions of \$20 million and \$28 million, respectively.

Net Gain from Sale of Operating Assets

During the first quarter of 2018, we completed the sale-leaseback of our Milwaukee, Wisconsin distribution facility for a net sale price of \$30 million and recognized a net gain of \$12 million. During the second quarter of 2018, we completed the sale of our Manchester, Connecticut distribution facility for a net sale price of \$68 million and recognized a net gain of \$38 million. During the first quarter of 2017, we completed the sale of our Buena Park, California distribution facility for a net sale price of \$131 million and recorded a net gain of \$111 million.

Impairments

During the second quarter of 2018, we recorded an impairment charge of \$52 million related to the expected sale of three airplanes. Two of the airplanes were sold during the second quarter of 2018 at their fair value of \$12 million. Subsequent to the second quarter of 2018, the third airplane was sold at its fair value of \$8 million.

13. Income Taxes

The net tax expense of \$5 million for the three months ended August 4, 2018 consisted of state and foreign tax expenses of \$3 million, \$1 million of expense related to the deferred tax asset change arising from the tax amortization of indefinite-lived intangible assets, net tax expense of \$1 million resulting from state audit settlements and \$1 million of net tax expense resulting from enacted state law changes, offset by a \$1 million benefit relating to other comprehensive income.

The net tax expense of \$4 million for the six months ended August 4, 2018 consisted of state and foreign tax expenses of \$5 million and \$2 million of expense related to the deferred tax asset change arising from the tax amortization of indefinite-lived intangible assets and \$1 million of net tax expense resulting from enacted state law changes, offset by a \$3 million benefit relating to other comprehensive income and a net tax benefit of \$1 million resulting from state audit settlements.

As of August 4, 2018, we have approximately \$2.3 billion of net operating losses (NOLs) available for U.S. federal income tax purposes, which largely expire in 2032 through 2034 and \$58 million of tax credit carryforwards that expire at various dates through 2035. A valuation allowance of \$560 million (restated for the tax effects of revenue recognition) fully offsets the federal deferred tax assets resulting from the NOL and tax credit carryforwards that expire at various dates through 2034. A valuation allowance of \$240 million fully offsets the deferred tax assets resulting from the state NOL carryforwards that expire at various dates through 2036. 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 periodic assessment, our estimate of the realization of deferred tax assets is solely based 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 NOL and tax credit carryforwards. Accordingly, in the three and six months ended August 4, 2018, the valuation allowance was increased by \$21 million and \$34 million, respectively, to offset the net deferred tax assets created in the quarter relating primarily to the increase in NOL carryforwards.

14. Litigation and Other Contingencies

Litigation

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

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Weitzman lawsuit. On January 15, 2014, the Court entered an order staying the derivative suits pending certain events in related class action securities litigation. On January 24, 2018, the Court issued an order reopening the suits.

Also, in March 2016, plaintiff Frank Lipsius filed a purported shareholder derivative action against certain present and former members of the Company's Board of Directors and executives in the District Court of Collin County in the State of Texas. The Company is named as a nominal defendant in the suit. The suit generally mirrors the allegations contained in the Weitzman and Zauderer suits discussed above, and seeks similar relief. On May 18, 2017, plaintiff in the Lipsius suit voluntarily dismissed the Collin County action, and on May 19, 2017, refiled the action in the District Court of Dallas County, Texas.

The parties have reached an agreement, subject to court approval, to settle the federal and state court derivative litigation.

On June 8, 2017, the Company's Board of Directors received a demand from a purported shareholder of the Company, Douglas Carlson, to conduct an investigation regarding potential claims that certain present and former members of the Board of Directors and executives violated federal securities law and/or breached their fiduciary duties to the Company based upon allegations similar to those in the shareholder derivative litigation. The Board of Directors appointed a committee of independent directors (the "Demand Review Committee") to review the demand and make a recommendation to the Board of Directors regarding a response to the demand. In November 2017, the Demand Review Committee completed its review and recommended that the demand be denied, which recommendation was adopted by the Board of Directors.

While no assurance can be given as to the ultimate outcome of these matters, we 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.

Other Legal Proceedings

The District Attorney's office for the County of San Joaquin, California, joined by District Attorneys for other counties in California, recently concluded an investigation regarding the handling and disposal at JCP's California stores and distribution centers of certain materials that may be deemed hazardous or universal waste under California law. On February 21, 2018, the District Attorneys provided a settlement demand to JCP that included a proposed civil penalty, reimbursement of investigation costs, enhancements to JCP's compliance program and certain injunctive relief. JCP is currently engaged in settlement negotiations. While no assurance can be given as to the ultimate outcome of this matter, we believe that the final resolution will not have a material adverse effect on our results of operations, financial position, liquidity or capital resources.

We are subject to various other legal and governmental proceedings involving routine litigation incidental to our business. Accruals have been established based on our best estimates of our potential liability in certain of these matters, including certain matters discussed above, all of which we believe aggregate to an amount that is not material to the Consolidated Financial Statements. These estimates were developed in consultation with in-house and outside counsel. While no assurance can be given as to the ultimate outcome of these matters, we currently believe 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 August 4, 2018, we have an estimated accrual of \$20 million related to potential environmental liabilities that is recorded in Other accounts payable and accrued expenses and Other liabilities in the unaudited Interim Consolidated Balance Sheet. 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 estimated amount, we do not believe that such losses would have a material effect on our financial condition, results of operations or liquidity.

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 3, 2018, 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 3, 2018 (2017 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.

Growth Initiatives

Our revenue growth strategy for 2018 focuses on the following four initiatives:

- Beauty;
- Home refresh;
- Women's apparel business; and
- Omnichannel.

First, we will continue to focus on our beauty categories of Sephora, The Salon by InStyle and Fine Jewelry. In 2017, we opened 70 additional Sephora locations, bringing our total number of locations to 642. We plan to add approximately 30 new Sephora locations and intend to continue to roll out and launch new brands in 2018. We are also continuing to rebrand our salons to The Salon by InStyle and plan to modernize and rebrand another 100 salons in 2018. Finally, we intend to continue to enhance our Fine Jewelry offerings to better provide the customer with a total beauty solution. Magnifying the importance of physical stores, we see Sephora, Salon and Fine Jewelry as differentiators to help drive traffic and increase the frequency of visits to our stores.

Second, we will continue to enhance our home refresh initiative and continue to develop our home services offering. We have established appliance showrooms in over 600 stores and have increased our mattress offering to approximately 500 in-store showrooms. We see our home refresh initiative as an opportunity for us to increase our revenue per customer.

Third, we will continue to focus on improving our women's apparel offering by strategically adjusting our assortment to better align with customer preferences. Our focus will be in categories that offer the greatest opportunity for growth, particularly special sizes, active wear, dresses, contemporary and casual sportswear. In addition, we are taking steps in women's apparel to simplify the floor, better balance our career and casual offerings and create a stronger value statement with pricing.

Lastly, we remain committed to becoming a world-class omnichannel retailer. We plan to continue to enhance our site functionality and ship-from-store capabilities and develop additional enhancements to our improved mobile app.

Second Quarter Overview

- Total net sales were \$2,762 million with a total net sales decrease of 7.5% compared to the second quarter of 2017 and a comparable store sales increase of 0.3%.
- Credit income and other was \$67 million compared to \$83 million in last year's second quarter.
- Cost of goods sold, which excludes depreciation and amortization, as a percentage of Total net sales increased to 66.3% compared to 64.7% in the same period last year. The increase as a rate of sales was primarily driven by markdown and pricing actions taken in the quarter to clear slow-moving seasonal inventory due to lower than planned sales.
- Selling, general and administrative (SG&A) expenses as a percentage of Total net sales increased to 31.9% for the second quarter of 2018 as compared to 31.3% for the same period last year. The net increase in SG&A expenses as a percentage of Total net sales for the quarter was primarily driven by the decrease in net sales and by higher controllable costs and marketing spend relative to our sales volume, offset by a reduction in lease expense associated with the amortization of gains on the sales of leasehold interests.
- Our net loss was \$101 million, or (\$0.32) per share, compared to a net loss of \$48 million, or (\$0.15) per share, for the corresponding prior year quarter. Results for this quarter included the following amounts that are not directly related to our ongoing core business operations:
 - \$2 million, or (\$0.01) per share, of restructuring and management transition charges;
 - \$19 million, or \$0.06 per share, for other components of net periodic pension income;
 - \$1 million for our proportional share of net income from our joint venture formed to develop the excess property adjacent to our home office facility in Plano, Texas (Home Office Land Joint Venture); and
 - \$1 million for the tax benefit resulting from other comprehensive income allocation related to pension and interest rate swap activity.
- Adjusted net loss was \$120 million, or (\$0.38) per share, compared to an adjusted net loss of \$23 million, or (\$0.07) per share, in last year's second quarter. See the reconciliation of net income/(loss) and diluted EPS, the most directly comparable generally accepted accounting principles (GAAP) financial measures, to adjusted net income/(loss) and adjusted diluted EPS on page 26.
- Adjusted earnings before interest expense, income tax (benefit)/expense and depreciation and amortization (Adjusted EBITDA) (non-GAAP) was \$105 million, a \$96 million decline from the same period last year. See the reconciliation of net income/(loss), the most directly comparable GAAP financial measure, to Adjusted EBITDA on page 25.
- During the second quarter of 2018, we completed the sale of our Manchester, Connecticut distribution facility for a net sale price of \$68 million and recorded a net gain of \$38 million.
- During the second quarter of 2018, we recorded an impairment charge of \$52 million related to the expected sale of three airplanes. Two of the airplanes were sold during the second quarter of 2018 at their fair value of \$12 million. Subsequent to the second quarter of 2018, the third airplane was sold at its fair value of \$8 million.

Results of Operations

	Three Months Ended		Six Months Ended	
	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017
<i>(\$ in millions, except EPS)</i>				
Total net sales	\$ 2,762	\$ 2,985	\$ 5,346	\$ 5,686
Credit income and other	67	83	154	166
Total revenues	2,829	3,068	5,500	5,852
Total net sales increase/(decrease) from prior year	(7.5)%	1.5 %	(6.0)%	(1.1)%
Comparable store sales increase/(decrease) ⁽²⁾	0.3 %	(1.3)%	0.2 %	(2.4)%
Costs and expenses/(income):				
Cost of goods sold (exclusive of depreciation and amortization shown separately below)	1,831	1,932	3,543	3,657
Selling, general and administrative	880	935	1,706	1,873
Depreciation and amortization	140	144	281	289
Real estate and other, net	12	(19)	(6)	(137)
Restructuring and management transition	2	23	9	123
Total costs and expenses	2,865	3,015	5,533	5,805
Operating income/(loss)	(36)	53	(33)	47
Other components of net periodic pension cost/(income)	(19)	(14)	(38)	92
(Gain)/loss on extinguishment of debt	—	35	23	35
Net interest expense	79	79	157	166
Income/(loss) before income taxes	(96)	(47)	(175)	(246)
Income tax expense/(benefit)	5	1	4	(11)
Net income/(loss)	\$ (101)	\$ (48)	\$ (179)	\$ (235)
Adjusted EBITDA (non-GAAP) ⁽³⁾	\$ 105	\$ 201	\$ 256	\$ 439
Adjusted net income/(loss) (non-GAAP) ⁽³⁾	\$ (120)	\$ (23)	\$ (189)	\$ (21)
Diluted EPS	\$ (0.32)	\$ (0.15)	\$ (0.57)	\$ (0.76)
Adjusted diluted EPS (non-GAAP) ⁽³⁾	\$ (0.38)	\$ (0.07)	\$ (0.60)	\$ (0.07)
Ratios as a percent of total net sales:				
Cost of goods sold	66.3 %	64.7 %	66.3 %	64.3 %
SG&A	31.9 %	31.3 %	31.9 %	32.9 %
Operating income/(loss)	(1.3)%	1.8 %	(0.6)%	0.8 %

(1) Reflects the retrospective application of the changes in accounting for revenue recognition and retirement-related benefits. See Note 2 of Notes to unaudited Interim Consolidated Financial Statements for a discussion of the changes and related impacts.

(2) Comparable store sales are presented on a 52-week basis and include sales from all stores, including sales from services, that have been open for 12 consecutive full fiscal months and Internet sales. Stores closed for an extended period are not included in comparable store sales calculations, while stores remodeled and minor expansions not requiring store closure remain in the calculations. Certain items, such as sales return estimates and store liquidation sales, are excluded from the Company's calculation. Our definition and calculation of comparable store sales may differ from other companies in the retail industry.

(3) See "Non-GAAP Financial Measures" 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.

Total Net Sales

	Three Months Ended		Six Months Ended	
	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017
<i>(\$ in millions)</i>				
Total net sales	\$ 2,762	\$ 2,985	\$ 5,346	\$ 5,686
Sales percent increase/(decrease):				
Total net sales	(7.5)%	1.5 %	(6.0)%	(1.1)%
Comparable store sales	0.3 %	(1.3)%	0.2 %	(2.4)%

Total net sales decreased \$223 million in the second quarter of 2018 compared to the second quarter of 2017. For the first six months of 2017, total net sales decreased \$340 million from the same period last year.

The following table provides the components of the net sales increase/(decrease):

	Three Months Ended	Six Months Ended
	August 4, 2018	August 4, 2018
<i>(\$ in millions)</i>		
Comparable store sales increase/(decrease)	\$ 8	\$ 13
Closed stores and other	(231)	(353)
Total net sales increase/(decrease)	\$ (223)	\$ (340)

As our omnichannel strategy continues to mature, it is increasingly difficult to distinguish between a store sale and an Internet sale. Because we no longer have a clear distinction between store sales and Internet sales, we do not separately report Internet sales. Below is a list of some of our omnichannel activities:

- Stores increase Internet sales by providing customers opportunities to view, touch and/or try on physical merchandise before ordering online.
- Our website increases store sales as in-store customers have often pre-shopped online before shopping in the store, including verification of which stores have online merchandise in stock.
- Most Internet purchases are easily returned in our stores.
- JCPenney Rewards can be earned and redeemed online or in stores.
- In-store customers can order from our website with the assistance of associates in our stores or they can shop our website from the JCPenney app while inside the store.
- Customers who utilize our mobile application can receive mobile coupons to use when they check out both online or in our stores.
- Internet orders can be shipped from a dedicated jcpenny.com fulfillment center, a store, a store merchandise distribution center, a regional warehouse, directly from vendors or any combination of the above.
- Certain categories of store inventory can be accessed and purchased by jcpenny.com customers and shipped directly to the customer's home from the store.
- Internet orders can be shipped to stores for customer pick up.
- "Buy online and pick up in store" is now available in all of our stores.

For the second quarter of 2018, units per transaction increased, while average unit retail was relatively flat and transaction counts decreased as compared to last year. For the first six months of 2018, average unit retail and units per transaction increased, while transaction counts decreased as compared to the prior year.

For the second quarter of 2018, our top-performing merchandise divisions were Children's, Jewelry, Sephora and Women's Apparel, with all experiencing sales gains on a comparable store basis. For the first six months of 2018, our top-performing merchandise divisions were Jewelry, Sephora, Children's and Men's, with all experiencing sales gains on a comparable store basis. Geographically, the Southeast, Gulf Coast and Northwest were the best performing regions of the country during the second quarter and first six months of 2018.

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During the second quarters of 2018 and 2017, private and exclusive brand merchandise comprised 46% and 7% of total merchandise sales, respectively. For the first six months of 2018 and 2017, private brand merchandise comprised 46% and 45% of total merchandise sales, respectively, and exclusive brand merchandise comprised 7% and 8% of total merchandise sales, respectively.

Store Count

The following table compares the number of stores for the three and six months ended August 4, 2018 and July 29, 2017:

	Three Months Ended		Six Months Ended	
	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017
JCPenney department stores				
Beginning of period	871	1,013	872	1,013
Stores opened	1	—	1	—
Closed stores	(7)	(2)	(8)	(2)
End of period ⁽¹⁾	865	1,011	865	1,011

(1) Gross selling space, including selling space allocated to services and licensed departments, was 95 million square feet as of August 4, 2018 and 103 million square feet as of July 29, 2017.

Credit Income and Other

Our private label credit card and co-branded MasterCard® programs are owned and serviced by Synchrony Financial (Synchrony). Under our agreement with Synchrony, we receive cash payments from Synchrony based upon the performance of the credit card portfolios. We participate in the programs by providing marketing promotions designed to increase the use of each card, including enhanced marketing offers for cardholders. Additionally, we accept payments in our stores from cardholders who prefer to pay in person when they are shopping in our locations. For the second quarters of 2018 and 2017, we recognized income of \$67 million and \$83 million, respectively, pursuant to our agreement with Synchrony. Through the first six months of 2018 and 2017, we recognized income of \$154 million and \$166 million, respectively. The decrease is due to lower sales and a decline in the performance of the credit card portfolio.

Cost of Goods Sold

Cost of goods sold, exclusive of depreciation and amortization, for the three months ended August 4, 2018 was \$1,831 million, a decrease of \$101 million compared to \$1,932 million for the three months ended July 29, 2017. Cost of goods sold as a percentage of Total net sales was 66.3% for the three months ended August 4, 2018 compared to 64.7% for the three months ended July 29, 2017, an increase of 160 basis points. Cost of goods sold, exclusive of depreciation and amortization, for the six months ended August 4, 2018 was \$3,543 million, a decrease of \$114 million compared to \$3,657 million for the six months ended July 29, 2017. Cost of goods sold as a percentage of Total net sales was 66.3% for the six months ended August 4, 2018 compared to 64.3% for the six months ended July 29, 2017, an increase of 200 basis points. The increase as a rate of sales for the three month period was primarily driven by markdown and pricing actions taken in the period to clear slow-moving seasonal inventory due to lower than planned sales. The increase as a rate of sales for the six month period was primarily driven by increased Internet clearance selling and continued growth in the mix of the Company's Internet category, markdown and pricing actions taken in the period to clear slow-moving seasonal inventory and growth in major appliances.

SG&A Expenses

For the three months ended August 4, 2018, SG&A expenses were \$55 million lower than the corresponding period of 2017. SG&A expenses as a percent of Total net sales for the second quarter of 2018 increased to 31.9% compared to 31.3% in the second quarter of 2017. For the six months ended August 4, 2018, SG&A expenses were \$167 million lower than the corresponding period of 2017. For the first six months of 2018, SG&A expenses as a percent of Total net sales decreased to 31.9% compared to 32.9% in the corresponding period of 2017. The net increase in SG&A expenses as a percentage of Total net sales for the three month period was primarily driven by the decrease in net sales and by higher controllable costs and marketing spend relative to our sales volume, offset by a reduction in lease expense associated with the amortization of gains on the sales of leasehold interests. The net decrease in SG&A expenses as a percentage of Total net sales for the six month period was primarily driven by lower controllable costs and marketing spend and a reduction in lease expense associated with the amortization of gains on the sales of leasehold interests.

Depreciation and Amortization Expense

Depreciation and amortization expense was \$140 million and \$144 million for the three months ended August 4, 2018 and July 29, 2017, respectively, and \$281 million and \$289 million for the six months ended August 4, 2018 and July 29, 2017, respectively.

Restructuring and Management Transition

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

(\$ in millions)	Three Months Ended		Six Months Ended	
	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017
Home office and stores	2	23	\$ 9	\$ 121
Other	—	—	—	2
Total	\$ 2	\$ 23	\$ 9	\$ 123

During the six months ended August 4, 2018 and July 29, 2017, we recorded \$9 million and \$121 million, respectively, of costs to reduce our store and home office expenses. Costs during the first six months of 2018 include employee termination benefits of \$8 million, store related closing costs of \$4 million and a \$3 million gain on the sale of a closed store. Costs during the first six months of 2017 include store closing asset impairments of \$77 million, employee termination benefits of \$20 million and store related closing costs of \$24 million.

Real Estate and Other, Net

Real estate and other consists of ongoing operating income from our real estate subsidiaries. Real estate and other also includes net gains from the sale of facilities and equipment that are no longer used in operations, asset impairments, accruals for certain litigation and other non-operating charges and credits. In addition, we entered into the Home Office Land Joint Venture in 2014 in which we contributed approximately 220 acres of excess property adjacent to our home office facility in Plano, Texas. The joint venture was formed to develop the contributed property and our proportional share of the joint venture's activities is recorded in Real estate and other, net.

The composition of Real estate and other, net was as follows:

(\$ in millions)	Three Months Ended		Six Months Ended	
	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017
Investment income from Home Office Land Joint Venture	\$ (1)	\$ (19)	\$ (1)	\$ (20)
Net gain from sale of operating assets	(40)	(1)	(57)	(118)
Impairments	52	—	52	—
Other	1	1	—	1
Total expense/(income)	\$ 12	\$ (19)	\$ (6)	\$ (137)

Investment income from the Home Office Land Joint Venture represents our proportional share of net income from the joint venture.

During the first quarter of 2018, we completed the sale of our Milwaukee, Wisconsin distribution facility for a net sale price of \$30 million and recognized a net gain of \$12 million. During the second quarter of 2018, we completed the sale of our Manchester, Connecticut distribution facility for a net sale price of \$68 million and recognized a net gain of \$38 million. During the first six months of 2017, the net gain from the sale of operating assets includes a \$111 million net gain on the sale of our Buena Park, California distribution facility and \$7 million in net gains on the sale of excess land.

During the second quarter of 2018, we recorded an impairment charge of \$52 million related to the expected sale of three airplanes. Two of the airplanes were sold during the second quarter of 2018 at their fair value of \$12 million. Subsequent to the second quarter of 2018, the third airplane was sold at its fair value of \$8 million.

Operating Income/(Loss)

For the second quarter of 2018, we reported an operating loss of \$36 million compared to operating income of \$53 million in the second quarter of 2017. For the first six months of 2018, we reported an operating loss of \$33 million compared to operating income of \$47 million in the first six months of 2017.

Other Components of Net Periodic Pension Cost/(Income)

Other components of net periodic pension cost/(income) was \$(19) million and \$(14) million for the three months ended August 4, 2018 and July 29, 2017, respectively, and \$(38) million and \$92 million for the six months ended August 4, 2018 and July 29, 2017, respectively.

In February 2017, we announced a Voluntary Early Retirement Program (VERP), which was offered to approximately 6,000 eligible associates. In the first quarter of 2017, we recorded a total charge of approximately \$120 million related to the VERP. Charges included \$112 million related to special retirement benefits for the approximately 2,800 associates who accepted the VERP and \$7 million related to curtailment charges for our pension plans as a result of the reduction in the expected years of future service related to these plans.

(Gain)/Loss on Extinguishment of Debt

During the first quarter of 2018, we settled cash tender offers with respect to portions of our outstanding 8.125% Senior Notes Due 2019 (2019 Notes) and 5.65% Senior Notes Due 2020 (2020 Notes), resulting in a loss on extinguishment of debt of \$23 million. During the second quarter of 2017, we settled cash tender offers with respect to portions of our outstanding 5.75% Senior Notes Due 2018 (2018 Notes) and 2019 Notes, resulting in a loss on extinguishment of debt of \$34 million, and amended our Revolving Credit Facility, which resulted in a loss on extinguishment of debt of \$1 million.

Net Interest Expense

Net interest expense for each of the second quarters of 2018 and 2017 was \$79 million. For the first six months of 2018, net interest expense was \$157 million, a decrease of \$9 million, or 5.4%, from \$166 million in 2017. The reduction in net interest expense is due to lower debt levels in 2018 compared to 2017.

Income Taxes

The net tax expense of \$5 million for the three months ended August 4, 2018 consisted of state and foreign tax expenses of \$3 million, \$1 million of expense related to the deferred tax asset change arising from the tax amortization of indefinite-lived intangible assets, net tax expense of \$1 million resulting from state audit settlements and \$1 million of net tax expense resulting from enacted state law changes, offset by a \$1 million benefit relating to other comprehensive income.

The net tax expense of \$4 million for the six months ended August 4, 2018 consisted of state and foreign tax expenses of \$5 million and \$2 million of expense related to the deferred tax asset change arising from the tax amortization of indefinite-lived intangible assets and \$1 million of net tax expense resulting from enacted state law changes, offset by a \$3 million benefit relating to other comprehensive income and a net tax benefit of \$1 million resulting from state audit settlements.

As of August 4, 2018, we have approximately \$2.3 billion of net operating losses (NOLs) available for U.S. federal income tax purposes, which largely expire in 2032 through 2034 and \$58 million of tax credit carryforwards that expire at various dates through 2035. A valuation allowance of \$560 million (restated for the tax effects of revenue recognition) fully offsets the federal deferred tax assets resulting from the NOL and tax credit carryforwards that expire at various dates through 2034. A valuation allowance of \$240 million fully offsets the deferred tax assets resulting from the state NOL carryforwards that expire at various dates through 2036. 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 periodic assessment, our estimate of the realization of deferred tax assets is solely based 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 NOL and tax credit carryforwards. Accordingly, in the three and six months ended August 4, 2018, the valuation allowance was increased by \$21 million and \$34 million, respectively, to offset the net deferred tax assets created in the quarter relating primarily to the increase in NOL carryforwards.

Non-GAAP Financial Measures

We report our financial information in accordance with GAAP. However, we present certain financial measures 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 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 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 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 restructuring and management transition charges, other components of net periodic pension cost/(income), the (gain)/loss on extinguishment of debt, the proportional share of net income from our Home Office Land Joint Venture and the tax impact for the allocation of income taxes to other comprehensive

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income items related to our pension plans and interest rate swaps. Unlike other operating expenses, restructuring and management transition charges, other components of net periodic pension cost/(income), the (gain)/loss on extinguishment of debt, the proportional share of net income from our Home Office Land Joint Venture and the tax impact for the allocation of income taxes to other comprehensive income items related to our pension plans and interest rate swaps are not directly related to our ongoing core business operations, which consist of selling merchandise and services to consumers through our department stores and our website at jcpenny.com. Further, our non-GAAP adjustments are for non-operating associated activities such as closed store impairments included in restructuring and management transition charges and such as joint venture earnings from the sale of excess land included in the proportional share of net income from our Home Office Land Joint Venture. Additionally, other components of net periodic pension cost/(income) which 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. We believe it is useful for investors to understand the impact of restructuring and management transition charges, other components of net periodic pension cost/(income), the (gain)/loss on extinguishment of debt, the proportional share of net income from the Home Office Land Joint Venture and the tax impact for the allocation of income taxes to other comprehensive income items related to our pension plans and interest rate swaps on our financial results and therefore are presenting the following non-GAAP financial measures: (1) adjusted EBITDA; (2) adjusted net income/(loss); and (3) adjusted earnings/(loss) per share-diluted.

Adjusted EBITDA. The following table reconciles net income/(loss), the most directly comparable GAAP measure, to adjusted EBITDA, which is a non-GAAP financial measure:

(\$ in millions)	Three Months Ended		Six Months Ended	
	August 4, 2018	July 29, 2017 ⁽¹⁾	August 4, 2018	July 29, 2017 ⁽¹⁾
Net income/(loss)	\$ (101)	\$ (48)	\$ (179)	\$ (235)
Add: Net interest expense	79	79	157	166
Add: (Gain)/loss on extinguishment of debt	—	35	23	35
Add: Income tax expense/(benefit)	5	1	4	(11)
Add: Depreciation and amortization	140	144	281	289
Add: Restructuring and management transition charges	2	23	9	123
Add: Other components of net periodic pension cost/(income)	(19)	(14)	(38)	92
Less: Proportional share of net income from joint venture	(1)	(19)	(1)	(20)
Adjusted EBITDA (non-GAAP)	\$ 105	\$ 201	\$ 256	\$ 439

(1) Reflects the retrospective application of the changes in accounting for revenue recognition and retirement-related benefits. See Note 2 of Notes to unaudited Interim Consolidated Financial Statements for a discussion of the changes and related impacts. For the three months ended July 29, 2017, the retrospective application of the changes in accounting for revenue recognition and retirement-related benefits increased Adjusted EBITDA (non-GAAP) by \$5 million. For the six months ended July 29, 2017, the retrospective application of the changes in accounting for revenue recognition and retirement-related benefits decreased Adjusted EBITDA (non-GAAP) by \$12 million.

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, which are non-GAAP financial measures:

	Three Months Ended		Six Months Ended	
	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017
<i>(\$ in millions, except per share data)</i>		(1)		(1)
Net income/(loss)	\$ (101)	\$ (48)	\$ (179)	\$ (235)
Diluted EPS	\$ (0.32)	\$ (0.15)	\$ (0.57)	\$ (0.76)
Add: Restructuring and management transition charges ⁽²⁾	2	23	9	123
Add: Other components of net periodic pension cost/(income) ⁽²⁾	(19)	(14)	(38)	92
Add: (Gain)/loss on extinguishment of debt ⁽²⁾	—	35	23	35
Less: Proportional share of net income from joint venture ⁽²⁾	(1)	(19)	(1)	(20)
Less: Tax impact resulting from other comprehensive income allocation ⁽³⁾	(1)	—	(3)	(16)
<i>Adjusted net income/(loss) (non-GAAP)</i>	<u>\$ (120)</u>	<u>\$ (23)</u>	<u>\$ (189)</u>	<u>\$ (21)</u>
<i>Adjusted diluted EPS (non-GAAP)</i>	<u>\$ (0.38)</u>	<u>\$ (0.07)</u>	<u>\$ (0.60)</u>	<u>\$ (0.07)</u>

(1) Reflects the retrospective application of the changes in accounting for revenue recognition and retirement-related benefits. See Note 2 of Notes to unaudited Interim Consolidated Financial Statements for a discussion of the changes and related impacts. For the three months ended July 29, 2017, the retrospective application of the changes in accounting for revenue recognition and retirement-related benefits increased Adjusted net income/(loss) (non-GAAP) by \$5 million. For the six months ended July 29, 2017, the retrospective application of the changes in accounting for revenue recognition and retirement-related benefits decreased Adjusted net income/(loss) (non-GAAP) by \$12 million.

(2) Adjustments reflect no tax effect due to the impact of the Company's tax valuation allowance.

(3) Represents the net tax benefit that resulted from our other comprehensive income allocation between our Operating loss and Accumulated other comprehensive income.

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. 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. We ended the second quarter of 2018 with \$182 million of cash and cash equivalents. As of the end of the second quarter of 2018, based on our borrowing base, our current borrowings and amounts reserved for outstanding letters of credit, we had \$1,992 million available for future borrowings under our revolving credit facility, providing total available liquidity of \$2,174 million.

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

(\$ in millions)	Six Months Ended	
	August 4, 2018	July 29, 2017
Cash and cash equivalents	\$ 182	\$ 314
Merchandise inventory	2,824	2,820
Property and equipment, net	4,058	4,390
Total debt and other financing obligations ⁽¹⁾	4,217	4,293
Stockholders' equity	1,216	1,168
Total capital	5,433	5,461
Maximum capacity under our Revolving Credit Facility	2,350	2,350
Cash flow from operating activities	(135)	56
Free cash flow (non-GAAP) ⁽²⁾	(235)	10
Capital expenditures ⁽³⁾	221	192
Ratios:		
Total debt-to-total capital ⁽⁴⁾	78%	79%
Cash-to-total debt ⁽⁵⁾	4%	7%

(1) Includes long-term debt, net of unamortized debt issuance costs, including current maturities, capital leases, financing obligation, note payable and any borrowings under our revolving 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 second quarters of 2018 and 2017, we had accrued capital expenditures of \$38 million and \$39 million, respectively.

(4) Total debt and other financing obligations divided by total capital.

(5) Cash and cash equivalents divided by total debt and other financing obligations.

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 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, payments made for business acquisitions or required pension contributions, if any. 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 sets forth a reconciliation of net cash provided by/(used in) operating activities, the most directly comparable GAAP financial measure, to free cash flow, a non-GAAP financial measure, as well as information regarding net cash provided by/(used in) investing activities and net cash provided by/(used in) financing activities:

	Six Months Ended	
	August 4, 2018	July 29, 2017
<i>(\$ in millions)</i>		
Net cash provided by/(used in) operating activities (GAAP)	\$ (135)	\$ 56
Add:		
Proceeds from sale of operating assets	121	146
Less:		
Capital expenditures ⁽¹⁾	(221)	(192)
<i>Free cash flow (non-GAAP)</i>	\$ (235)	\$ 10
Net cash provided by/(used in) investing activities ⁽²⁾	\$ (100)	\$ (37)
Net cash provided by/(used in) financing activities	\$ (41)	\$ (592)

(1) As of the end of the second quarters of 2018 and 2017, we had accrued capital expenditures of \$38 million and \$39 million, respectively.

(2) Net cash provided by investing activities includes capital expenditures and proceeds from sale of operating assets, which are also included in our computation of free cash flow.

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.

Cash flows from operating activities for the six months ended August 4, 2018 declined \$191 million to an outflow of \$135 million compared to an inflow of \$56 million for the same period in 2017. Our net loss of \$179 million for the six months ended August 4, 2018 includes significant income and expense items that do not impact operating cash flow including depreciation and amortization, the gain on the sale of assets, restructuring and management transition, (gain)/loss on extinguishment of debt, asset impairments, benefit plans, stock-based compensation and deferred taxes.

Cash flows from operating activities for the first six months of 2018 and 2017 also included construction allowances from landlords of \$4 million and \$14 million, respectively, which funded a portion of our capital expenditures in investing activities.

Merchandise inventory increased \$4 million to \$2,824 million, or 0.1%, as of the end of the second quarter of 2018 compared to \$2,820 million as of the end of the second quarter last year and increased \$21 million from year-end 2017. Based on the identical stores open at August 4, 2018 and July 29, 2017, inventory had increased by 1.0% primarily due to an increase in basic inventory levels and timing of receipt flow. Merchandise accounts payable decreased \$40 million as of the end of the second quarter of 2018 compared to the corresponding prior year period and decreased \$63 million from year end.

Investing Activities

Investing activities for the six months ended August 4, 2018 resulted in cash outflows of \$100 million compared to outflows of \$37 million for the same six month period of 2017.

Cash capital expenditures were \$221 million for the six months ended August 4, 2018 and were \$192 million for the six months ended July 29, 2017. In addition, as of the end of the second quarters of 2018 and 2017, we had \$38 million and \$39 million, respectively, of accrued capital expenditures. Through the first six months of 2018, capital expenditures related primarily to investments in our store environment and store facility improvements, including investments in 27 new Sephora inside JCPenney stores and investments in information technology in both our home office and stores. We received construction allowances from landlords of \$4 million in the first six months of 2018 to fund a portion of the capital expenditures related to store leasehold improvements. These funds are classified as operating activities and have been recorded as deferred rent credits in the Consolidated Balance Sheets and are amortized as an offset to rent expense.

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For the six months ended July 29, 2017, capital expenditures related primarily to investments in our store environment and store facility improvements, including investments in 32 new and 31 expanded Sephora inside JCPenney stores, the roll out of 100 new appliance showrooms and investments in information technology in both our home office and stores. We received construction allowances from landlords of \$14 million in the first six months of 2017.

Full year 2018 capital expenditures are expected to be approximately \$375 million net of construction allowances from landlords. Capital expenditures for the remainder of 2018 include accrued expenditures of \$38 million at the end of the second quarter.

Financing Activities

Financing activities for the six months ended August 4, 2018 resulted in an outflow of \$41 million compared to an outflow of \$592 million for the same period last year. During the first six months of 2018, we issued \$400 million aggregate principal amount of senior secured second priority notes due 2025 and incurred \$7 million in related issuance costs, paid \$395 million to settle cash tender offers with respect to portions of our outstanding 2019 Notes and 2020 Notes and had net credit facility borrowings of \$177 million. Additionally, we paid \$190 million to retire outstanding debt at maturity and we paid \$21 million in required principal payments on outstanding debt and \$4 million in required payments on our capital leases, financing obligation and note payable.

Free Cash Flow

Free cash flow for the six months ended August 4, 2018 decreased \$245 million to an outflow of \$235 million compared to an inflow of \$10 million in the same period last year. The year-over-year decrease was primarily due to inventory liquidation last year, lower operating performance and higher capital expenditures.

Cash Flow Outlook

For the remainder of 2018, we believe that our existing liquidity will be adequate to fund our capital expenditures and working capital needs; however, in accordance with our long-term financing strategy, we may access the capital markets opportunistically. We believe that our current financial position will provide us the financial flexibility to support our growth initiatives.

Credit Ratings

Our credit ratings and outlook as of August 31, 2018 from various credit rating agencies were as follows:

	Corporate	Outlook
Fitch Ratings	B	Stable
Moody's Investors Service, Inc.	B3	Stable
Standard & Poor's Ratings Services	B-	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 2017 Form 10-K.

Impact of Inflation, Deflation and Changing Prices

We have experienced inflation and deflation related to our purchase of certain commodity products. We do not believe that changing prices for commodities have had a material effect on our Net Sales or results of operations. Although we cannot precisely determine the overall effect of inflation and deflation on operations, we do not believe inflation and deflation have had a material effect on our financial condition or results of operations.

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.

Except for the changes in revenue recognition and pension accounting as discussed in Note 2 to the Unaudited Interim Consolidated Financial Statements, there were no changes to our critical accounting policies during the six months ended August 4, 2018. 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 2017 Form 10-K.

Recently Issued Accounting Pronouncements

Recently issued accounting pronouncements are discussed in Note 3 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 our promotional activity. The results of operations and cash flows for the six months ended August 4, 2018 are not necessarily indicative of the results for future quarters or the entire year.

Cautionary Statement Regarding Forward-Looking Statements

This report may contain 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. Words such as "expect" and similar expressions identify forward-looking statements, which include, but are not limited to, statements regarding sales, cost of goods sold, selling, general and administrative expenses, earnings, cash flows and liquidity. Forward-looking statements are based only on the Company's current assumptions and views of future events and financial performance. They are subject to known and unknown risks and uncertainties, many of which are outside of the Company's control, that may cause the Company's actual results to be materially different from planned or expected results. Those 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 strategic plan including our omnichannel initiatives, customer acceptance of our 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, disruptions and congestion at ports through which we import goods, 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, legal and regulatory proceedings and the Company's ability to access the debt or equity markets on favorable terms or at all. There can be no assurances that the Company will achieve expected results, and actual results may be materially less than expectations. 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. 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 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 August 4, 2018 are similar to those disclosed in the 2017 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 officers 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 officers 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 second quarter ended August 4, 2018, 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

The matters under the caption "Litigation" in Note 14 of the Notes to Unaudited Interim Consolidated Financial Statements in Part I, Item 1 of this Form 10-Q are incorporated herein by reference.

Item 1A. Risk Factors

The risk factors listed below update and supersede the risk factors associated with our business previously disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended February 3, 2018.

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

As we position the Company for long-term growth, it may take longer than expected to achieve our objectives, 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 achieve profitable sales and to make adjustments in response to changing conditions;
- our ability to respond to competitive pressures in our industry;
- our ability to effectively manage inventory;
- the success of our omnichannel strategy;
- our ability to gather accurate and relevant data and effectively utilize that data in our strategic planning and decision making;
- our ability to benefit from investments in our stores;
- our ability to respond to any unanticipated changes in expected cash flows, liquidity and cash needs, 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 an adequate and uninterrupted supply of merchandise from suppliers at expected levels and on acceptable terms;

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- changes to the regulatory environment in which our business operates; and
- general economic conditions.

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

We operate in a highly competitive industry, 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, large appliance retailers, specialty retailers, wholesale clubs, direct-to-consumer businesses, including those on the Internet, providers of home improvement services 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, selling their products, updating their store environment and updating their technology. Competition is characterized by many factors, including merchandise assortment, advertising, price, quality, service, location, reputation, shipping times and cost, online and mobile user experience, credit availability, customer loyalty, availability of in-store services, such as styling salon, optical, portrait photography and custom decorating, and the ability to offer personalized customer experiences. We have experienced, and anticipate that we will continue to experience for at least the foreseeable future, significant competition from our competitors. The performance of competitors as well as changes in their pricing and promotional policies, marketing activities, customer loyalty programs, availability of in-store services, new store openings, store renovations, launches of Internet websites or mobile platforms, brand launches and other merchandise and operational strategies could cause us to have lower sales, lower merchandise 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. There is no assurance that these efforts will be successful or that we will be able to satisfy constantly changing customer demands. To the extent our decisions 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.

We may also seek to expand into new lines of business from time to time, such as offering large appliances for sale and offering home improvement products and installation services through third-parties. There is no assurance that these efforts will be successful. As we devote time and resources to new lines of business, management's attention and resources may be diverted from existing business activities. Further, if new lines of business are not as successful as we planned, then we risk damaging our overall business results. In addition, we may seek to expand our merchandise offerings into new product categories. Moving into new lines of business and expanding our merchandise offerings may carry new or additional risks beyond those typically associated with our traditional apparel and home furnishings businesses, including potential reputational harm resulting from actions by unaffiliated third-parties that we may use to assist us in providing goods or services. We may not be able to develop new lines of business in a manner that improves our operating results or address or mitigate the risks associated with new product categories and new lines of business, and may therefore be forced to close the new lines of business or reduce our expanded merchandise offerings, which may damage our reputation and negatively impact our operating results.

Our results may be negatively impacted if customers do not maintain their favorable perception of our Company and our private brand merchandise.

Maintaining and continually enhancing the value of our Company and our private brand merchandise is important to the success of our business. The value of our private brands is based in large part on the degree to which customers perceive and react to them. The value of our private brands could diminish significantly due to a number of factors, including customer perception that we have acted in an irresponsible manner in sourcing our private brand merchandise, adverse publicity about

our private brand merchandise, our failure to maintain the quality of our private brand products, the failure of our private brand merchandise to deliver consistently good value to the customer, or the failure to protect the image associated with our private brands. The growing use of social and digital media by customers, us, and third parties increases the speed and extent that information or misinformation and opinions can be shared. Negative posts or comments about us, our private brands, or any of our merchandise on social or digital media could seriously damage our reputation. If we do not maintain the favorable perception of our Company and our private brand merchandise or we experience a reduction in the level of private brand sales, our business results could be negatively impacted.

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, present an appealing shopping environment and experience to customers, and attract customers to our stores through omnichannel initiatives such as pickup-in-store programs. Our strategies focus on increasing customer traffic and improving conversion in our stores and online; however, there can be no assurance that our efforts will be successful or will result in increased sales or margins. Further, costs to drive online traffic may be higher than anticipated, which could result in lower margins, and actions to drive online traffic may not deliver anticipated results. In addition, external events outside of our control, including store closings by our competitors, pandemics, terrorist threats, domestic conflicts and civil unrest, may influence customers' decisions to visit malls or might otherwise cause customers to avoid public places. There is no assurance that we will be able to reverse any decline in traffic or that increases in Internet sales will offset any decline in store traffic. We may need to respond to any declines in customer traffic or conversion rates by increasing markdowns or promotions to attract customers, which could adversely impact our operating results and cash flows from operating activities. In addition, the challenge of declining store traffic along with the growth of digital shopping channels and its diversion of sales from brick-and-mortar stores could lead to store closures and/or asset impairment charges, which could adversely impact our operating results, financial position and cash flows.

If we are unable to manage our inventory effectively, our merchandise 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 and online, timely and efficiently distributing inventory to stores, maintaining an appropriate mix and level of inventory in stores and online, 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 sell the excess inventory at clearance prices which would negatively impact our merchandise 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. In addition, although we have various processes and systems to help protect against loss or theft of our inventory, higher than expected levels of lost or stolen inventory (called "shrinkage") could result in write-offs and lost sales, which could adversely impact our profitability.

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

As part of our normal operations, we and third-party service providers with whom we contract receive and maintain information about our customers (including credit/debit card information), our employees and other third parties. Confidential data must at all times be protected against security breaches or other unauthorized disclosure. We have, and require our third-party service providers to have, administrative, physical and technical safeguards and procedures in place to protect the security, confidentiality, integrity and availability of such information and to protect such information against unauthorized access, disclosure or acquisition. Despite our safeguards and security processes and procedures, there is no assurance that all of our systems and processes, or those of our third-party service providers, are free from vulnerability to security breaches, inadvertent data disclosure or acquisition by third parties. Further, because the methods used to obtain unauthorized access change frequently and may not be immediately detected, we may be unable to anticipate these methods or promptly implement safeguards. Any failure to protect confidential data about our business or our customers, employees or other third parties could materially damage our brand and reputation as well as result in significant expenses and disruptions to our operations, and loss of customer confidence, any of which could have a material adverse impact on our business and results of operations. We could also be subject to government enforcement actions and private litigation as a result of any such failure.

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, which have historically had high rates of turnover. We currently operate with significantly fewer individuals than we have in the past who have assumed additional duties and responsibilities, which could have an adverse impact on our operating performance and efficiency. Negative media reports regarding the Company or the retail industry in general, as well as uncertainty due to store closings, could also 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. Our ability to meet our changing labor needs while controlling our costs is also subject to external factors such as unemployment levels, competing wages, potential union organizing efforts and government regulation. An inability to provide wages and/or benefits that are competitive within the markets in which we operate could adversely affect our ability to retain and attract employees. 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.

If we are unable to successfully develop and maintain a relevant and reliable omnichannel experience for our customers, our sales, results of operations and reputation could be adversely affected.

One of the pillars of our strategic framework is to deliver a superior omnichannel shopping experience for our customers through the integration of our store and digital shopping channels. Omnichannel retailing is rapidly evolving and we must anticipate and meet changing customer expectations. Our omnichannel strategies include our ship-from-store and pickup-in-store programs and expansion of our SKU count online. In addition, we continue to explore ways to enhance our customers' omnichannel shopping experience, including through investments in IT systems, operational changes and developing a more customer-friendly user experience. Our competitors are also investing in omnichannel initiatives, some of which may be more successful than our initiatives. For example, online and other competitors have placed an emphasis on delivery services, with customers increasingly seeking faster, guaranteed delivery times and low-price or free shipping. There is no assurance that we will be able to maintain an ability to be competitive on delivery times and delivery costs, which is dependent on many factors. If the implementation of our omnichannel strategies is not successful or does not meet customer expectations, or we do not realize a return on our omnichannel investments, our reputation and operating results may be adversely affected.

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

We sell merchandise over the Internet through our website, www.jcpenney.com, and through mobile applications for smart phones and tablets. Our Internet operations are subject to numerous risks, including rapid technological change and the implementation of new systems and platforms; liability for online and mobile content; violations of state or federal laws, including those relating to online and mobile privacy and intellectual property rights; credit card fraud; problems associated with the operation, security and availability of our website, mobile applications and related support systems; computer malware; telecommunications failures; electronic break-ins and similar disruptions; and the allocation of inventory between our online operations and department stores. The failure of our website or mobile applications 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 and mobile applications, including user friendly software applications for smart phones and tablets, could result in the loss of Internet sales and have an adverse impact on our 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 and mobile applications, data centers that process transactions, communication systems and various software applications used throughout our Company to track inventory flow, process transactions, generate performance and financial reports and administer payroll and benefit plans.

We have implemented several applications and systems from third party vendors, providers and licensors to simplify our processes and reduce our use of customized existing legacy systems and expect to place additional applications and systems into operation in the future. Any continued reliance on existing legacy systems may result in extended system outages due to the difficulty in recovering those systems as well as inefficiencies in our business workflow due to the complexity and high

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levels of customization inherent in such systems. Implementing new applications and 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, the potential inability to meet reporting requirements and unintentional security vulnerabilities. There can be no assurances that we will successfully launch the new applications and systems as planned, that the new applications and systems will perform as expected or that the new applications and 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.

Our vendors are also highly dependent on the use of information technology systems. Major disruptions in their information technology systems could result in their inability to communicate with us or otherwise to process our transactions or information, their inability to perform required functions, or in the loss or corruption of our information, any and all of which could result in disruptions to our operations. Our vendors are responsible for having safeguards and procedures in place to protect the confidentiality, integrity and security of our information, and to protect our information and systems against unauthorized access, disclosure or acquisition. Any failure in their systems to operate or in their ability to protect our information or systems could have a material adverse impact on our business and results of operations.

We have insourced, and may continue to insource, certain business functions from third party vendors and may seek to relocate certain business functions to international locations in an attempt to achieve additional efficiencies, both of which subject us to risks, including disruptions in our business.

We have recently insourced certain business functions and may also need to continue to insource other aspects of our business in the future in order to effectively manage our costs and stay competitive. We may also seek from time to time to relocate certain business functions to countries other than the United States to access highly skilled labor markets and further control costs. There is no assurance that these efforts will be successful. In addition, future regulatory developments could hinder our ability to fully realize the anticipated benefits of these actions. These actions may also cause disruptions that negatively impact our business. If we are ultimately unable to perform insourced functions better than, or at least as well as, third party providers, or otherwise fully realize the anticipated benefits of these actions, our operating results could be adversely impacted.

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. Any 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. There is no assurance that we will 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 economic conditions on our suppliers cannot be predicted and our suppliers may be unable to access financing or become insolvent and thus become unable to supply us with products. Developments in tax policy, such as the disallowance of tax deductions for imported merchandise, or the imposition of tariffs on imported merchandise, could further have a material adverse effect on our results of operations and liquidity.

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

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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 real estate term loan credit facility and senior secured notes are secured by certain of our real property and, together with our senior secured second priority notes, 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 real estate term loan credit facility and the indentures governing the senior secured notes and senior secured second priority notes contain provisions that could restrict our operations and our ability to obtain additional financing.

We are (i) party to a \$1.688 billion senior secured term loan credit facility and (ii) the issuer of \$500 million aggregate principal amount of senior secured notes. We have also issued \$400 million aggregate principal amount of senior secured second priority notes. The senior secured term loan credit facility and the senior secured notes are secured by mortgages on certain real property of the Company and, together with the senior secured second priority notes, liens on substantially all personal property of the Company, subject to certain exclusions set forth in the security documents relating to the term loan credit facility, the senior secured notes and the senior secured second priority notes. The real property subject to mortgages under the term loan credit facility and the indenture governing the senior secured notes includes our distribution centers and certain of our stores.

The credit and guaranty agreement governing the term loan credit facility and the indentures governing the senior secured notes and the senior secured second-priority notes contain 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 assets have been restricted or pledged as collateral for repayment of our indebtedness under the term loan credit facility, the senior secured notes and the senior secured second-priority notes.

If an event of default occurs and is continuing, our outstanding obligations under the term loan credit facility, the senior secured notes and the senior secured second-priority notes 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, the senior secured notes and the senior secured second-priority notes, including, with respect to the term loan credit facility and senior secured notes, our 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 senior secured asset-based revolving credit facility limits our borrowing capacity to the value of certain of our assets. In addition, our senior secured asset-based 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.

We are party to a \$2.35 billion senior secured asset-based revolving credit facility. 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.

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.

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 August 4, 2018, we have \$4.217 billion in total indebtedness and we 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. In addition, any future limitations on tax deductions for interest paid on outstanding indebtedness as a result of the Tax Cuts and Jobs Act enacted in December 2017 (the “Tax Act”) could have a material adverse effect on our results of operations and liquidity.

We are required to make quarterly repayments in a principal amount equal to \$10.55 million during the seven-year term of the real estate term loan credit facility, subject to certain reductions for mandatory and optional prepayments. In addition, we are required to make prepayments of the real estate term loan credit facility with the proceeds of certain asset sales, insurance proceeds and excess cash flow, which could reduce the cash available for other purposes, including capital expenditures for store improvements, and could impact our ability to reinvest in other areas of our business.

There is no assurance 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, equity financings and sales of non-operating assets. We expect our ability to generate cash through the sale of non-operating assets to diminish as our portfolio of non-operating assets decreases. In addition, 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, there is no assurance 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. There can be no assurance that any of these actions would be successful, sufficient 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, the value and sufficiency of collateral, 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 there is no assurance 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.

Our use of interest rate hedging transactions could expose us to risks and financial losses that may adversely affect our financial condition, liquidity and results of operations.

To reduce our exposure to interest rate fluctuations, we have entered into, and in the future may enter into, interest rate swaps with various financial counterparties. The interest rate swap agreements effectively convert a portion of our variable rate interest payments to a fixed price. There can be no assurances, however, that our hedging activity will be effective in insulating us from the risks associated with changes in interest rates. In addition, our hedging transactions may expose us to certain risks and financial losses, including, among other things:

- counterparty credit risk;
- the risk that the duration or amount of the hedge may not match the duration or amount of the related liability;

- the hedging transactions may be adjusted from time to time in accordance with accounting rules to reflect changes in fair values, downward adjustments or “mark-to-market losses,” which would affect our stockholders’ equity; and
- the risk that we may not be able to meet the terms and conditions of the hedging instruments, in which case we may be required to settle the instruments prior to maturity with cash payments that could significantly affect our liquidity.

Further, we have designated the swaps as cash flow hedges in accordance with Accounting Standards Codification Topic 815, Derivatives and Hedging. However, in the future, we may fail to qualify for hedge accounting treatment under these standards for a number of reasons, including if we fail to satisfy hedge documentation and hedge effectiveness assessment requirements or if the swaps are not highly effective. If we fail to qualify for hedge accounting treatment, losses on the swaps caused by the change in their fair value will be recognized as part of net income, rather than being recognized as part of other comprehensive income.

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. If our operating performance reflects a sustained decline, we may be exposed to significant asset impairment charges in future periods, which could be material to our results of operations.

Reductions in income and cash flow from our marketing and servicing arrangement related to our private label and co-branded credit cards could adversely affect our operating results and cash flows.

Synchrony Financial (“Synchrony”) owns and services our private label credit card and co-branded MasterCard® programs. Our agreement with Synchrony provides for certain payments to be made by Synchrony to the Company, including a share of income from the performance of the credit card portfolios. The income and cash flow that the Company receives from Synchrony is dependent upon a number of factors including the level of sales on private label and co-branded accounts, the percentage of sales on private label and co-branded accounts relative to the Company’s total sales, the level of balances carried on the accounts, payment rates on the accounts, finance charge rates and other fees on the accounts, the level of credit losses for the accounts, Synchrony’s ability to extend credit to our customers as well as the cost of customer rewards programs. All of these factors can vary based on changes in federal and state credit card, banking and consumer protection laws, which could also materially limit the availability of credit to consumers or increase the cost of credit to our cardholders. The factors affecting the income and cash flow that the Company receives from Synchrony can also vary based on a variety of economic, legal, social and other factors that we cannot control. If the income or cash flow that the Company receives from our consumer credit card program agreement with Synchrony decreases, our operating results and cash flows could be adversely affected.

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 vendors 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;

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- 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, congestion and labor issues at major ports, 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. 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. In addition, developments in tax policy, such as the disallowance of tax deductions for imported merchandise, or the imposition of tariffs on imported merchandise, could have a material adverse effect on our results of operations and liquidity.

Disruptions and congestion at ports through which we import merchandise may increase our costs and/or delay the receipt of goods in our stores, which could adversely impact our profitability, financial position and cash flows.

We ship the majority of our private brand merchandise by ocean to ports in the United States. Our national brand suppliers also ship merchandise by ocean. Disruptions in the operations of ports through which we import our merchandise, including but not limited to labor disputes involving work slowdowns, lockouts or strikes, could require us and/or our vendors to ship merchandise by air freight or to alternative ports in the United States. Shipping by air is significantly more expensive than shipping by ocean which could adversely affect our profitability. Similarly, shipping to alternative ports in the United States could result in increased lead times and transportation costs. Disruptions at ports through which we import our goods could also result in unanticipated inventory shortages, which could adversely impact our reputation and 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,

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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, preclude customers from traveling to our stores, 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 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. Government intervention and activism and/or regulatory reform may result in substantial new regulations and disclosure obligations and/or changes in the interpretation of existing laws and regulations, 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 disrupt our operations and increase our costs of doing business. Changes in the regulatory environment regarding topics such as privacy and information security, tax policy, product safety, environmental protection, including regulations in response to concerns regarding climate change, collective bargaining activities, minimum wage, wage and hour, and health care mandates, among others, as well as changes to applicable accounting rules and regulations, such as changes to lease accounting standards, could also cause our compliance costs to increase and adversely affect our business, financial condition and 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. We may also experience volatility in the amount of the annual actuarial gains or losses recognized as income or expense because we have elected to recognize pension expense using mark-to-market accounting. 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.

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

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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 that have often been unrelated or disproportionate to the operating performance of these companies. This volatility could affect the price at which you could sell shares of our common stock.

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. The Company and certain of our former members of the Board of Directors and executives were defendants in a consolidated class action lawsuit and continue to be defendants in two related stockholder derivative actions that were filed 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.

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

The Company has a federal net operating loss (NOL) of \$2.3 billion as of August 4, 2018. Nearly all of these NOL carryforwards (expiring in 2032 through 2034) arose prior to December 31, 2017 and are available to offset future taxable income in full. NOLs recognized after December 31, 2017 are not subject to expiration but are only available to offset up to 80% of the Company's 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 by a corporation's NOLs if the 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 that 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 2.32% at August 4, 2018. 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. Based upon the elections the Company has made and the information that has been filed with the Securities and Exchange Commission through August 4, 2018, the Company has not had a Section 382 ownership change through August 4, 2018.

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.

We believe that these NOL carryforwards are a valuable asset for us. Consequently, we have a stockholder rights plan in place, which was approved by the Company's stockholders, to protect our NOLs during the effective period of the rights plan. Although the rights plan is intended to reduce the likelihood of an "ownership change" that could adversely affect us, there is no assurance that the restrictions on transferability in the rights plan will prevent all transfers that could result in such an "ownership change".

The rights plan 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 4.9% or more of our common stock could suffer substantial dilution of its ownership interest under the terms of the rights plan through the issuance of common stock or common stock equivalents to all stockholders other than the acquiring person.

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The foregoing provisions may adversely affect the marketability of our 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.

Item 6. Exhibits

Exhibit Index

Exhibit No.	Exhibit Description	Incorporated by Reference				Filed (†) Herewith (as indicated)
		Form	SEC File No.	Exhibit	Filing Date	
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 20, 2016	8-K	001-15274	3.1	7/21/2016	
3.3	Certificate of Designation, Preferences and Rights of Series C Junior Participating Preferred Stock	8-K	001-15274	3.1	8/22/2013	
10.1	Form of Cash Retention Award Agreement					†
10.2	Form of Notice of Non-Associate Director Restricted Stock Unit Award under the J. C. Penney Company, Inc. 2018 Long-Term Incentive Plan					†
10.3	Form of Restricted Stock Unit Grant Agreement under the J. C. Penney Company, Inc. 2018 Long-Term Incentive Plan					†
31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					†
31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					†
31.3	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					†
32.1	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					†
32.2	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					†
32.3	Certification 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/Andrew S. Drexler

Andrew S. Drexler

Senior Vice President, Chief Accounting Officer and Controller
(Principal Accounting Officer)

Date: September 5, 2018



To:
From: Board of Directors
Date:
Subject: Cash Bonus Award

Our Company and our industry are in a period of transition. Now, more than ever, we need leaders who are focused on executing our strategic priorities and driving improved results. To recognize your contributions and the importance of your ongoing participation moving forward, we are pleased to present you with a cash bonus award of \$XXX,XXX. The award is subject to the terms and conditions set forth below.

We appreciate your commitment to JCPenney. To accept your award, please sign, date and return this letter. Thank you for playing an important role in the next chapter of JCPenney’s history.

Name (Print): _____

Signature: _____

Date: _____

TERMS AND CONDITIONS

The award will be paid to you on [VESTING DATE].

If you have received your award but voluntarily terminate your employment with JCPenney or your employment is terminated for Cause, including specifically, a breach of any of the Company’s policies, practices, procedures or Statement of Business Ethics as determined by the Company (defined as “Cause”), prior to [VESTING DATE], you agree to reimburse the Company the full amount of the award (\$XXX,XXX).

You will not be required to reimburse JCPenney for any portion of your bonus if your employment is involuntarily terminated by JCPenney for any reason other than for Cause, or if your employment is terminated as a result of your death, or disability.

To the extent permitted by law, you agree that JCPenney may deduct reimbursement payments from your final paycheck. If reimbursement payments are not timely paid, the Company shall be entitled to recover reasonable collection agency fees and attorney’s fees incurred by the Company because of such noncompliance.

This letter does not constitute an employment agreement. Your employment with JCPenney is “at-will,” which means either you or JCPenney can terminate the employment relationship at any time or for any reason not prohibited by law, with or without advance notice.

J. C. PENNEY COMPANY, INC. 2018 LONG-TERM INCENTIVE PLAN

NOTICE OF RESTRICTED STOCK UNIT AWARD
NON-ASSOCIATE DIRECTOR ANNUAL GRANT

Name:

Restricted Stock Unit Grant

A restricted stock unit grant for [] units was granted to you on []. Each restricted stock unit shall at all times be deemed to have a value equal to the then-current fair market value of one share of J. C. Penney Company, Inc. Common Stock of 50¢ par value ("Common Stock"). This grant is subject to all the terms, rules, and conditions of the J. C. Penney Company, Inc. 2018 Long-Term Incentive Plan ("Plan"). In the event of a change in capitalization of the Company or other similar event, the number of units shall be adjusted as provided in the Plan.

If the Company declares a dividend, you will be credited with a quarterly distribution of an amount equivalent to the dividend declared on Common Stock on the restricted stock units until such time as the units are converted to shares of Common Stock. Any such dividends shall be converted into a number of additional restricted stock units equal to the aggregate dividend which would have been paid with respect to the number of restricted stock units then credited to you under this grant divided by the closing price of the Common Stock on the New York Stock Exchange on the day on which such dividends are paid. Any such additional restricted stock units shall vest at the same time as the restricted stock units granted hereunder.

Payment Date

The Restricted Stock Units shall vest and the restrictions on your Restricted Stock Unit shall lapse on [VESTING DATE]. Your vested Restricted Stock Units shall be settled in shares of Common Stock on or as soon as practicable following the vesting date, but in no event later than 2½ months following the vesting date. You shall not be allowed to defer the payment of your shares of Common Stock to a later date. If you have a separation from Board service, prior to the vesting date, for any reason other than a Qualifying Termination as defined in the Plan, the restricted stock units will be forfeited. The beneficiary listed on your J. C. Penney Company, Inc. Beneficiary Designation Form will receive the vested shares upon separation due to death.

Taxes

At the time the Company issues to you, in cancellation of the restricted stock units, shares of Common Stock, the fair market value of the shares on the vesting date (the closing price of the Common Stock on the New York Stock Exchange, or if the Common Stock does not trade on such date, the closing price reported in the composite transaction table on the last trading date immediately preceding such date) multiplied by the number of vested shares will be reported to the Internal Revenue Service on a Form 1099. The fair market value is subject to Federal Income Tax and Social Security Self-Employment Tax.

Restricted Stock Unit Grant Agreement

Name [Participant Name]	Employee ID [Employee ID]
Date of Grant [Grant Date]	Number of Restricted Stock Units Granted [Shares Granted]

- Restricted Stock Unit Grant.** You have been granted the number of Restricted Stock Units listed above in recognition of your expected future contributions to the success of J. C. Penney Company, Inc. (“Company”). Each Restricted Stock Unit shall at all times be deemed to have a value equal to the then-current fair market value of one share of J. C. Penney Company, Inc. Common Stock of 50¢ par value (“Common Stock”). This grant is subject to all the terms, rules, and conditions of the J. C. Penney Company, Inc. 2018 Long-Term Incentive Plan (“Plan”) and the implementing resolutions (“Resolutions”) approved by the Human Resources and Compensation Committee (“Committee”) of the Company’s Board of Directors (“Board”). For purposes of this Restricted Stock Unit Grant Agreement (“Agreement”), “Employer” means the entity (the Company or the Subsidiary) that employs you on the applicable date. Capitalized terms not otherwise defined herein shall have the respective meanings assigned to them in the Plan and the Resolutions. **You have 90 days from the date this Agreement is made available to you, either physically or electronically, to accept the terms of this Agreement.** If you do not accept the terms of this Agreement in the applicable 90-day period, you will forfeit the Restricted Stock Units that are the subject of this Agreement.
- Vesting of Your Restricted Stock Units.** The Restricted Stock Units shall vest and the restrictions on your Restricted Stock Unit shall lapse on [VESTING DATE] (“Vest Date”), provided you remain continuously employed by the Company or a Subsidiary through the Vest Date (unless your Employment terminates due to your Retirement, Disability, death, job restructuring, reduction in force, mutual consent, or unit closing); otherwise the Restricted Stock Units granted will be forfeited.

Vested Restricted Stock Units shall be settled in shares of Common Stock on or as soon as practicable following, and effective as of, the earlier of (i) your termination of Employment as a result of your Retirement, Disability, death, or job restructuring, reduction in force, mutual consent, unit closing, or (ii) the Vest Date provided above. Notwithstanding the foregoing, if (i) you are a specified employee as defined under Section 409A of the Code, (ii) your award is subject to Section 409A of the Code, and (iii) your Employment is terminated as a result of your Retirement, your vested Restricted Stock Units shall be paid in shares of Common Stock as soon as practicable following the earlier of (x) the first business day after the date that is six months following your termination of service due to Retirement (y) the date of your death, or (z) the Vest Date provided above. You shall not be allowed to defer the payment of your shares of Common Stock to a later date. For purposes of this Agreement, “as soon as practicable” means within 90 days.
- Dividend Equivalents.** You shall not have any rights as a stockholder until your Restricted Stock Units vest and you are issued shares of Common Stock in settlement of the vested Restricted Stock Units. If the Company declares a dividend, you will accrue dividend equivalents on the unvested Restricted Stock Units in the amount of any quarterly dividend declared on the Common Stock. Dividend equivalents shall continue to accrue until your Restricted Stock Units vest and you receive actual shares of Common Stock in settlement of the vested Restricted Stock Units. The dividend equivalents shall be credited as additional Restricted Stock Units in your account to be paid in shares of Common Stock on the Vest Date along with the Restricted Stock Units to which they relate. The number of additional Restricted Stock Units to be credited to your account shall be determined by dividing the aggregate dividend payable with respect to the number of Restricted Stock Units in your account by the closing price of the Common Stock on the New York Stock Exchange on the dividend payment date. The additional Restricted Stock Units credited to your account are subject to all of the terms and conditions of this Restricted Stock Unit award and the Plan and you shall forfeit any dividend equivalent Restricted Stock Units in the event that you forfeit the Restricted Stock Units to which they relate.

4. **Employment Termination.** If your Employment terminates due to Retirement, Disability, death, job restructuring, reduction in force, mutual consent, or unit closing prior to the Vest Date, you shall be entitled to a prorated number of Restricted Stock Units. The pro-rata number of Restricted Stock Units that will vest will be determined by multiplying the "Number of Restricted Stock Units Granted" from above by a fraction, the numerator of which is the number of months from the date of grant to the effective date of your termination of service, inclusive, and the denominator of which is [VESTING MONTHS]. The number of restricted stock units that have already vested according to the terms herein, if any, will be subtracted from the prorated amount and the remaining prorated restricted stock units to which you are entitled will be distributed as provided in Section 2 above. Any Restricted Stock Units for which vesting is not accelerated shall be cancelled on such Employment termination.

Notwithstanding the foregoing, if you are party to a termination agreement, and your Employment is terminated due to an involuntary termination of Employment without cause (or summary dismissal) under, and as defined in that termination agreement, then the number of Restricted Stock Units that will vest will be determined according to the terms of the underlying termination agreement subject to (a) the execution and delivery of a release in such form as may be required by the Company and (b) the expiration of the applicable revocation period for such release. Any Restricted Stock Units that vest under a termination agreement will be distributed as provided in Section 2 of this Agreement.

If your employment terminates for any reason other than those specified above, any unvested Restricted Stock Units shall be cancelled on the effective date of termination.

5. **Covenants and Representations.** By accepting this award, you hereby acknowledge that your duties to the Company or Employer require access to and creation of the Company'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 Company and its Subsidiaries and affiliates at substantial cost and constitutes valuable and unique property of the Company. You further acknowledge that due to the nature of your position, you will have access to Proprietary Information affecting plans and operations in every location in which the Company (and its Subsidiaries and affiliates) does business or plans to do business throughout the world, and your decisions and recommendations on behalf of the Company (or its Subsidiaries and affiliates) may affect its operations throughout the world. **Accordingly, by accepting this award you acknowledge that the foregoing makes it reasonably necessary for the protection of the Company's business interests that you agree to the following covenants in connection with (i) your involuntary separation from service, as defined under United States Treasury Regulation §1.409A-1(n), other than for Cause, or (ii) your voluntary separation from service:**

- (a) *Confidentiality.* You hereby covenant and agree that you shall not, without the prior written consent of the Company, during your employment with the Company or its Subsidiaries at any time thereafter disclose to any person not employed by the Company, or use in connection with engaging in competition with the Company, any Proprietary Information of the Company.
- i. It is expressly understood and agreed that the Company's Proprietary Information is all nonpublic information relating to the Company'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 Company. 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.
- ii. In the event you receive a subpoena, court order, or other summons that may require you to disclose Proprietary Information, on pain of civil or criminal penalty, you will promptly give notice to the Company of the subpoena or summons and provide the Company an opportunity to appear at the Company's expense and challenge the disclosure of its Proprietary Information, and you shall provide reasonable cooperation to the Company for purposes of affording the Company the opportunity to prevent the disclosure of the Company's Proprietary Information.
- iii. Nothing in this Agreement shall restrict you from, directly or indirectly, initiating communications with or responding to any inquiry from, or providing testimony before, the United States Securities and Exchange
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Commission ("SEC"), Financial Industries Regulatory Authority ("FINRA"), or any other self-regulatory organization or state or federal regulatory authority.

- (b) *Nonsolicitation of Employees.* You hereby covenant and agree that during your employment with the Company or its Subsidiaries and, in the event you, as noted above, (i) have a voluntary separation from service, or (ii) have an involuntary separation from service other than for Cause, that for a period equal to (x) 18 months, if you are an Executive Vice President on the date of your separation from service, or (y) 12 months, if you are a Senior Vice President, thereafter, you shall not, without the prior written consent of the Company, on your 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 Company (or any of its Subsidiaries or affiliates) to give up his or her employment with the Company (or any of its Subsidiaries or affiliates), and you shall not directly or indirectly solicit or hire employees of the Company (or any of its Subsidiaries or affiliates) for employment with any other employer, without regard to whether that employer is a Competing Business, as defined below.
- (c) *Noninterference with Business Relations.* You hereby covenant and agree that during your employment with the Company and, in the event you, as noted above, (i) have a voluntary separation from service, or (ii) have an involuntary separation from service other than for Cause, that for a period equal to (x) 18 months, if you are an Executive Vice President on the date of your separation from service, or (y) 12 months, if you are a Senior Vice President, thereafter, you shall not, without the prior written consent of the Company, on your 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 Company (or any of its Subsidiaries or affiliates).
- (d) *Noncompetition.*
- i. You hereby covenant and agree that during your employment with the Company or its Subsidiaries and, in the event you, as noted above, (i) have a voluntary separation from service, or (ii) have an involuntary separation from service other than for Cause, that for a period equal to (x) 18 months, if you are an Executive Vice President on the date of your separation from service, or (y) 12 months, if you are a Senior Vice President, (the "Severance Period") thereafter, you will not, except as otherwise provided for below, undertake any work for a Competing Business, as defined in subsection 5(d)ii.
- ii. As used in this Agreement, the term "Competing Business" shall specifically include, but not be limited to:
- A. Kohl's Corporation, Macy's, Inc., Target Corporation, The TJX Companies, Inc., Ross Stores, Inc., Walmart Inc., Amazon.com, Inc., and any of their respective subsidiaries or affiliates, o
- B. any business (1) that, at any time during the Severance Period, competes directly with the Company through sales of merchandise or services in the United States or another country or commonwealth in which the Company, including its divisions, affiliates and licensees, operates, and (2) where you perform 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 (x) substantially similar duties or oversight responsibilities as those you performed at any time during the 12-month period preceding your termination from the Company or a Subsidiary for any reason, or (y) greater duties or responsibilities that include such substantially similar duties or oversight responsibilities as those referred to in (x); or
- C. any business that provides buying office or sourcing services to any business of the types referred to in this subsection 5(d).
- iii. For purposes of this section, the restrictions on working for a Competing Business shall include working at any location within the United States, Puerto Rico or Hong Kong. You acknowledge that the Company is a national retailer with operations throughout the United States and Puerto Rico and that the duties and responsibilities that you perform, or will perform, for the Company directly impact the Company's ability to compete with a Competing Business in a nationwide marketplace. You further acknowledge that you have, or will have, access to sensitive and confidential information of the Company that relates to the Company's ability to compete in a nationwide marketplace.
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- (e) *Non-Disparagement*. You covenant that you will not make any statement or representation, oral or written, that could adversely affect the reputation, image, goodwill or commercial interests of the Company. This provision will be construed as broadly as state or federal law permits, but no more broadly than permitted by state or federal law. This provision is not intended to and does not prohibit you from participating in a governmental investigation concerning the Company, or providing truthful testimony in any lawsuit, arbitration, mediation, negotiation or other matter. You agree not to incur any expenses, obligations or liabilities on behalf of the Company.
- (f) *Enforcement and Injunctive Relief*. In addition to any other remedies to which the Company is entitled, on the Company's becoming aware that you have breached, or potentially have breached, any of the Covenants and Representations set forth in this Agreement, above, the Company shall have a right to seek recoupment of the portion of any award under the Plan, or any plan or program that is a successor to the Plan, that (i) vested within the 12 months prior to the date of your voluntary separation from service or your involuntary separation from service other than for cause, each under and as defined in your termination agreement, and (ii) includes and is subject to these Covenants and Representations, including any proceeds or value received from the settlement or sale of that portion of any such awards. Further, if you shall breach any of the covenants contained herein, the Company may recover from you all such damages as it may be entitled to under the terms of this Agreement, any other agreement between the Company and you, at law, or in equity. In addition, you acknowledge that any such breach of the Covenants and Representations in the Agreement is likely to result in immediate and irreparable harm to the Company for which money damages are likely to be inadequate. Accordingly, you consent to injunctive and other appropriate equitable relief without the necessity of bond in excess of USD 500 upon the institution of proceedings therefore by the Company in order to protect the Company's rights hereunder.
6. **Recoupment**. As provided in Section 12.19 of the Plan, this Award is subject to any compensation recoupment policy adopted by the Board or the Committee prior to or after the effective date of the Plan, and as such policy may be amended from time to time after its adoption.
7. **Responsibility _____ for Taxes**.

- (a) *Liability for Tax-Related Items*. You acknowledge that regardless of any action the Company or Employer takes with respect to any or all income tax, social insurance, payroll tax, fringe benefits tax, payment on account or other tax-related items related to your participation in the Plan and legally applicable to you ("Tax-Related Items"), the ultimate liability for all Tax-Related Items is and remains your responsibility and may exceed the amount actually withheld by the Company or the Employer. You further acknowledge that the Company and/or the Employer (i) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Restricted Stock Units, including the grant, vesting or settlement of the Restricted Stock Units, the subsequent sale of any shares of Common Stock acquired as a result of such settlement and/or the receipt of any dividends after settlement; and (ii) do not commit to and are under no obligation to structure the terms of the grant or any aspect of the Restricted Stock Units to reduce or eliminate the your liability for Tax-Related Items or achieve any particular tax result. Furthermore, you acknowledge that the Company and/or the Employer (or former employer, as applicable) may be required to withhold or account for Tax-Related Items in more than one jurisdiction.
- (b) *Tax-Related Items Withholding Procedures*. You authorize the use of the withholding procedures set forth below in this subsection 7(b) to satisfy all Tax-Related Items obligations of the Company and/or the Employer that may arise upon the vesting of the Restricted Stock Units or any other taxable or tax withholding event. The Company shall not be required to issue or deliver the shares of Common Stock if you fail to comply with your obligations in connection with the Tax-Related Items. Further, the Company may withhold or account for Tax-Related Items by considering minimum statutory withholding or such other rate that will not cause adverse accounting consequences.

The Company shall be entitled to withhold, or require you to remit all Tax-Related Items by, without limitation: (i) withholding from shares of Common Stock that would otherwise be delivered to you a number of shares of Common Stock sufficient to satisfy all or a portion of the withholding obligation, (ii) having you tender owned and unencumbered shares of Common Stock having a Fair Market Value on the date of tender equal to or less than the remaining required withholding, (iii) having the Company or the Employer, as applicable, withhold

from any cash compensation payable to you, or (iv) requiring you to repay the Company or the Employer, in cash or in shares of Common Stock, for taxes paid on your behalf.

Notwithstanding the foregoing, if you are subject to Section 16 of the Exchange Act pursuant to Rule 16a-2 promulgated thereunder, the Company will withhold from shares of Common Stock upon the relevant tax withholding event, unless the use of such withholding method is prevented by applicable law or has materially adverse accounting or tax consequences, in which case, the withholding obligation may be satisfied by one or a combination of methods (ii) - (iv) above.

If the obligation for Tax-Related Items is satisfied by withholding from shares of Common Stock, for tax purposes, you are deemed to have been issued the full number of shares of Stock subject to the vested Restricted Stock Units, notwithstanding that a number of the shares of Common Stock are held back solely for the purpose of paying the applicable Tax-Related Items.

8. **Nature of Grant**. In accepting the Restricted Stock Units, you acknowledge that:

- (a) the Plan is established voluntarily by the Company, is discretionary in nature and may be modified, amended, suspended or terminated by the Company at any time, to the extent permitted by the Plan;
 - (b) the grant of the Restricted Stock Units is exceptional, discretionary, voluntary and occasional and does not create any contractual or other right to receive future grants of Restricted Stock Units, or benefits in lieu of Restricted Stock Units, even if Restricted Stock Units have been granted in the past;
 - (c) all decisions with respect to future Restricted Stock Unit grants, if any, will be at the sole discretion of the Company;
 - (d) you are voluntarily participating in the Plan;
 - (e) the Restricted Stock Units and any shares of Stock that may be received in settlement of the Restricted Stock Units, and the income and value of same, (i) are an extraordinary item that does not constitute compensation of any kind for services of any kind rendered to the Company or the Employer, and which is outside the scope of your employment contract, if any, (ii) are not intended to replace any pension rights or compensation, and (iii) are not part of normal or expected compensation or salary for any purpose, including, but not limited to, calculating any severance, resignation, termination, redundancy, dismissal, end-of-service payments, holiday pay, bonuses, long-service awards, pension or retirement or welfare benefits or similar payments;
 - (f) the Restricted Stock Unit grant will not be interpreted to form an employment contract or relationship with the Company or any Subsidiary, nor does it amend any legal relationship or legal entitlement between you and the Employer;
 - (g) this Agreement, the transactions contemplated hereunder and the vesting schedule set forth herein do not constitute an express or implied promise of your further employment for the vesting period, for any period, or at all, and will not interfere with your right or the right of the Employer to terminate your employment relationship at any time;
 - (h) unless otherwise determined by the Company in its sole discretion, for purposes of this Agreement, a termination of Employment shall be effective from the date on which active employment ends and shall not be extended by any statutory or common law notice of termination period;
 - (i) unless otherwise agreed with the Company, the Restricted Stock Units and the shares of Common Stock underlying the Restricted Stock Units, and the income and value of same, are not granted as consideration for, or in connection with, the service you may provide as a director of a Subsidiary;
 - (j) the future value of the underlying shares of Common Stock is unknown, indeterminable and cannot be predicted with certainty;
 - (k) neither the Company, the Employer nor any Subsidiary shall be liable for any foreign exchange rate fluctuation between your local currency and the United States Dollar that may affect the value of the Restricted Stock
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Units or of any amounts due to you pursuant to the settlement of the Restricted Stock Units or the sale of any shares of Common Stock you may acquire upon such settlement;

- (l) no claim or entitlement to compensation or damages shall arise from forfeiture of the Restricted Stock Units or the recoupment of any shares of Stock acquired pursuant to the Restricted Stock Units resulting from (i) termination of Employment (regardless of the reason for termination and whether or not the termination is later found to be invalid or in breach of employment laws in the jurisdiction where you are employed or the terms of your employment agreement, if any), and/or (ii) the application of any recoupment/forfeiture policy, as described herein; and in consideration of the grant of the Restricted Stock Units, you agree not to institute any claim against the Company or the Employer; and
 - (m) the Restricted Stock Units and the benefits evidenced by this Agreement do not create any entitlement, not otherwise specifically provided for in the Plan or provided by the Company in its discretion, to have the Restricted Stock Units or any such benefits transferred to, or assumed by, another company or to be exchanged, cashed out or substituted for, in connection with any corporate transaction affecting the shares of Common Stock.
9. **No Advice Regarding Grant** The Company is not providing any tax, legal or financial advice, nor is the Company making any recommendations regarding your participation in the Plan, or your acquisition or sale of the underlying shares of Common Stock. You should consult your own personal tax, legal and financial advisors regarding your participation in the Plan before taking any action related to the Plan.
10. **Data Privacy.** *You hereby explicitly and unambiguously consent to the collection, use and transfer, in electronic or other form, of your personal data as described in this Agreement and any other Restricted Stock Unit grant materials by and among, as applicable, the Employer, the Company, and its Subsidiaries and affiliates for the exclusive purpose of implementing, administering and managing your participation in the Plan.*

You understand that the Company and the Employer may hold certain personal information about you, including, but not limited to, your name, home address and telephone number, email address, date of birth, social insurance, passport or other identification number (e.g., resident registration number), salary, nationality, job title, any shares of Common Stock or directorships held in the Company, details of all Restricted Stock Units or any other entitlement to shares of Common Stock awarded, canceled, exercised, vested, unvested or outstanding in your favor ("Data"), for the exclusive purpose of implementing, administering and managing the Plan.

You understand that Data will be transferred to Fidelity Investments Stock Plan Services or such other stock plan service provider as may be selected by the Company in the future, which is assisting the Company with the implementation, administration and management of the Plan. You understand that the recipients of the Data may be located in the United States or elsewhere, and that the recipients' country (e.g., the United States) may have different data privacy laws and protections than your country. You understand that you may request a list with the names and addresses of any potential recipients of the Data by contacting your local human resources representative. You authorize the Company, the Employer and any other possible recipients which may assist the Company (presently or in the future) with implementing, administering and managing the Plan to receive, possess, use, retain and transfer the Data, in electronic or other form, for the sole purpose of implementing, administering and managing your participation in the Plan, including any requisite transfer of such Data as may be required to a broker, escrow agent or other third party with whom any shares of Stock received upon grant of Restricted Stock Units may be deposited.

You understand that Data will be held only as long as is necessary to implement, administer and manage your participation in the Plan. You understand that you may, at any time, view Data, request information about the storage and processing of Data, require any necessary amendments to Data or refuse or withdraw the consents herein, in any case without cost, by contacting in writing your local human resources representative.

Further, you understand that you are providing the consents herein on a purely voluntary basis. If you do not consent, or later seek to revoke your consent, your employment status or service with the Employer will not be affected; the only consequence of refusing or withdrawing consent is that the Company would not be able to grant Restricted Stock Units or other equity awards to you or administer or maintain such awards. Therefore, you understand that refusing or withdrawing your consent may affect your ability to participate in the Plan. For more information on the consequences of your refusal to consent or withdrawal of consent, you understand that you may contact your local human resources representative.

11. **Imposition of Other Requirements.** The Company reserves the right to impose other requirements on your participation in the Plan, on the Restricted Stock Units and on any shares of Common Stock acquired under the Plan, to the extent the Company determines it is necessary or advisable for legal or administrative reasons, and to require you to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.
 12. **Addendum to Agreement.** Notwithstanding any provision of this Agreement to the contrary, the Restricted Stock Units shall be subject to any special terms and conditions for your country of residence (and country of employment, if different) as set forth in the addendum to this Agreement (the "Addendum"). Further, if you transfer your residence and/or employment to a country reflected in the Addendum, the special terms and conditions for such country will apply to you to the extent the Company determines, in its sole discretion, that the application of such terms and conditions is necessary or advisable to comply with local laws, rules and/or regulations or to facilitate the operation and administration of the Restricted Stock Units and the Plan (or the Company may establish alternative terms and conditions as may be necessary or advisable to accommodate your transfer). The Addendum shall constitute part of this Agreement.
 13. **Language.** If you have received the Agreement or any other document related to the Plan translated into a language other than English and if the meaning of the translated version is different than the English version, the English version will control.
 14. **Not a Public Offering.** If you are resident outside the United States, the grant of the Restricted Stock Units is not intended to be a public offering of securities in your country of residence (or country of employment, if different). The Company has not submitted any registration statement, prospectus or other filings with the local securities authorities (unless otherwise required under local law), and the grant of the Restricted Stock Units is not subject to the supervision of the local securities authorities.
 15. **Insider Trading/Market Abuse Laws.** You acknowledge that you may be subject to insider trading restrictions and/or market abuse laws in applicable jurisdictions, including the United States and your country, which may affect your ability to acquire or sell shares of Common Stock or rights to shares of Common Stock (e.g., Restricted Stock Units) under the Plan during such times as you are considered to have "inside information" regarding the Company (as defined by the laws in your country). Any restrictions under these laws or regulations are separate from and in addition to any restrictions that may be imposed under any applicable Company insider trading policy. You acknowledge that it is your responsibility to be informed of and compliant with such regulations, and should speak to your personal advisor on this matter.
 16. **Foreign Asset/Account Reporting; Exchange Controls; Compliance with Law.** Your country may have certain foreign asset and/or account reporting requirements and/or exchange controls which may affect your ability to acquire or hold shares of Common Stock under the Plan or cash received from participating in the Plan (including from any dividends received or sale proceeds arising from the sale of shares of Common Stock) in a brokerage or bank account outside your country. You may be required to report such accounts, assets or transactions to the tax or other authorities in your country. You also may be required to repatriate sale proceeds or other funds received as a result of your participation in the Plan to your country through a designated bank or broker and/or within a certain time after receipt. You acknowledge that it is your responsibility to be compliant with such regulations, and you should consult your personal legal advisor for any details. In addition, you agree to take any and all actions, and consent to any and all actions taken by the Company and its Subsidiaries, as may be required to allow the Company and its Subsidiaries to comply with local laws, rules and/or regulations in your country of residence (and country of employment, if different). Finally, you agree to take any and all actions as may be required to comply with your personal obligations under local laws, rules and/or regulations in your country of residence and country of employment, if different).
 17. **Electronic Delivery.** The Company may, in its sole discretion, deliver by electronic means any documents related to the Award or your future participation in the Plan. You hereby consent to receive such documents by electronic delivery and agree to participate in the Plan through an on-line or electronic system established and maintained by the Company or a third party designated by the Company.
 18. **Governing Law.** This Agreement is governed by the substantive and procedural laws of the state of Delaware, without regard to Delaware's conflict-of-laws principles.
 19. **Severability.** If any provision of this Agreement is determined to be illegal, invalid, or unenforceable for any reason, under present or future law, the illegal, invalid, or unenforceable provision will be fully severable and severed, and
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will not affect the remaining parts of the Agreement, and the Agreement will be construed and enforced as if the illegal, invalid, or unenforceable provision had not been included in the Agreement, and the remaining provisions of the Agreement will remain in full force and effect and will not be affected by the illegal, invalid, or unenforceable provision or by its severance.

This Restricted Stock Unit grant does not constitute an employment contract. It does not guarantee employment for the length of the vesting period or for any portion thereof.

ADDENDUM TO THE RESTRICTED STOCK UNIT GRANT AGREEMENT

In addition to the terms of the Plan and the Agreement, the Award is subject to the following additional terms and conditions to the extent you reside and/or are employed in one of the countries addressed herein. Pursuant to Section 12 of the Agreement, if you transfer your residence and/or employment to another country reflected in this Addendum, the additional terms and conditions for such country (if any) will apply to you to the extent the Company determines, in its sole discretion, that the application of such terms and conditions is necessary or advisable in order to comply with local laws, rules and/or regulations or to facilitate the operation and administration of the Restricted Stock Units and the Plan (or the Company may establish alternative terms as may be necessary or advisable to accommodate your transfer). All defined terms contained in this Addendum shall have the same meaning as set forth in the Plan and the Agreement.

Hong Kong

1. **Settlement of RSUs.** The Restricted Stock Units do not provide any right for you to receive a cash payment and the Restricted Stock Units will be settled only in shares of Common Stock.
2. **Restrictions on Sale and Transferability.** Shares of Common Stock acquired upon vesting of the Restricted Stock Units are accepted as a personal investment. In the event the Restricted Stock Units vest within six months of the Grant Date, you hereby agree that any shares of Common Stock acquired pursuant to the Restricted Stock Units may not be offered to the public in Hong Kong or otherwise disposed of prior to the six-month anniversary of the Grant Date.
3. **Securities Warning.** *The contents of this document have not been reviewed by any regulatory authority in Hong Kong. You are advised to exercise caution in relation to the offer. If you are in any doubt about any of the contents of the Agreement, the Plan or any Plan prospectus, you should obtain independent professional advice. The Restricted Stock Units and any shares of Common Stock issued thereunder do not constitute a public offering of securities under Hong Kong law and are available only to employees of the Company or its Subsidiaries. The Agreement, including any Addendum to the Agreement, the Plan, any Plan prospectus and any other incidental communication materials have not been prepared in accordance with and are not intended to constitute a "prospectus" for a public offering of securities under the applicable securities legislation in Hong Kong. The Restricted Stock Units and any related documentation are intended only for your personal use and may not be distributed to any other person.*
4. **Occupational Retirement Schemes Ordinance Notification.** The Company specifically intends that the Plan will not be an occupational retirement scheme for purposes of the Occupational Retirement Schemes Ordinance.

India

1. **Exchange Control Notice.** You must repatriate any dividends and proceeds from the sale of shares of Common Stock to India within the time period prescribed under applicable local law. You should obtain evidence of the repatriation of funds in the form of a foreign inward remittance certificate ("FIRC") from the bank where you deposit the foreign currency. You should maintain the FIRC as evidence of the repatriation of funds in the event the Reserve Bank of India or the Employer requests proof of repatriation. You also are responsible for complying with any other exchange control laws in India that may apply to the Restricted Stock Units or the shares of Common Stock acquired under the Plan.

CERTIFICATION

I, Jeffrey A. Davis, 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: September 5, 2018

/s/ Jeffrey A. Davis

Jeffrey A. Davis

Executive Vice President and Chief Financial Officer and Member
of the Office of the CEO

CERTIFICATION

I, Therace Risch, 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: September 5, 2018

/s/ Therace Risch

Therace Risch

Executive Vice President, Chief Information Officer and Chief Digital Officer and
Member of the Office of the CEO

CERTIFICATION

I, Michael Robbins, 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: September 5, 2018

/s/ Michael Robbins

Michael Robbins

Executive Vice President, Private Brands and Supply Chain and Member of
the Office of the CEO

**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 August 4, 2018 (the "Report"), I, Jeffrey A. Davis, Executive Vice President and Chief Financial Officer and Member of the Office of the CEO 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.

Date: September 5, 2018

/s/ Jeffrey A. Davis

Jeffrey A. Davis

Executive Vice President and Chief Financial Officer and Member
of the Office of the CEO

**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 August 4, 2018 (the "Report"), I, Therace Risch, Executive Vice President, Chief Information Officer and Chief Digital Officer and Member of the Office of the CEO 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.

Date: September 5, 2018

/s/ Therace Risch

Therace Risch

Executive Vice President, Chief Information Officer and Chief
Digital Officer and Member of the Office of the CEO

**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 August 4, 2018 (the "Report"), I, Michael Robbins, Executive Vice President, Private Brands and Supply Chain and Member of the Office of the CEO 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.

Date: September 5, 2018

/s/ Michael Robbins

Michael Robbins

Executive Vice President, Private Brands and Supply Chain and
Member of the Office of the CEO