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

FORM 10-Q

(Mark One)

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

For the quarterly period ended November 2, 2019
or

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

For the transition period from__________ to__________

Commission File Number: 1-15274

J. C. PENNEY COMPANY, INC.

(Exact name of registrant as specified in its charter)

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

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock of 50 cents par value	**JCP**	**New York Stock Exchange**
Preferred Stock Purchase Rights	**JCP**	**New York Stock Exchange**

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

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

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

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.319,995,614 shares of Common Stock of 50 cents par value, as of November 29, 2019.

J. C. PENNEY COMPANY, INC.

FORM 10-Q

For the Quarterly Period Ended November 2, 2019

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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)

(In millions, except per share data)	Three Months Ended November 2, 2019	Three Months Ended November 3, 2018	Nine Months Ended November 2, 2019	Nine Months Ended November 3, 2018
Total net sales	$ 2,384	$ 2,653	$ 7,332	$ 7,999
Credit income and other	116	80	342	234
Total revenues	2,500	2,733	7,674	8,233
Costs and expenses/(income):				
Cost of goods sold (exclusive of depreciation and amortization shown separately below)	1,541	1,808	4,756	5,351
Selling, general and administrative (SG&A)	854	883	2,580	2,589
Depreciation and amortization	131	138	415	419
Real estate and other, net	(1)	(7)	(3)	(13)
Restructuring and management transition	9	11	36	20
Total costs and expenses	2,534	2,833	7,784	8,366
Operating income/(loss)	(34)	(100)	(110)	(133)
Other components of net periodic pension cost/(income)	(13)	(19)	(39)	(57)
(Gain)/loss on extinguishment of debt	—	—	(1)	23
Net interest expense	73	78	220	235
Income/(loss) before income taxes	(94)	(159)	(290)	(334)
Income tax expense/(benefit)	(1)	(8)	5	(4)
Net income/(loss)	$ (93)	$ (151)	$ (295)	$ (330)
Earnings/(loss) per share:				
Basic	$ (0.29)	$ (0.48)	$ (0.92)	$ (1.05)
Diluted	$ (0.29)	$ (0.48)	$ (0.92)	$ (1.05)
Weighted average shares – basic	320.9	316.3	319.3	315.3
Weighted average shares – diluted	320.9	316.3	319.3	315.3

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

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

	Three Months Ended		Nine Months Ended	
($ in millions)	**November 2, 2019**	**November 3, 2018**	**November 2, 2019**	**November 3, 2018**
Net income/(loss)	$ (93)	$ (151)	$ (295)	$ (330)
Other comprehensive income/(loss), net of tax:				
Retirement benefit plans				
Reclassification for amortization of prior service (credit)/cost [(1)]	2	1	6	3
Cash flow hedges				
Gain/(loss) on interest rate swaps [(2)]	(5)	5	(44)	10
Reclassification for periodic settlements [(3)]	(1)	—	(5)	—
Total other comprehensive income/(loss), net of tax	(4)	6	(43)	13
Total comprehensive income/(loss), net of tax	$ (97)	$ (145)	$ (338)	$ (317)

(1) Net of $0 million of tax in each of the three and nine months ended November 2, 2019 and net of $(1) million and $(3) million of tax in the three and nine months ended November 3, 2018, respectively. Pre-tax amounts of $2 million and $6 million in the three and nine months ended November 2, 2019, respectively, and pre-tax amounts of $2 million and $6 million in the three and nine months ended November 3, 2018, respectively, were recognized in Other components of net periodic pension cost/(income) in the unaudited Interim Consolidated Statements of Operations.

(2) Net of $0 million of tax in each of the three and nine months ended November 2, 2019 and net of $(1) million and $(2) million of tax in the three and nine months ended November 3, 2018, respectively.

(3) Net of $0 million of tax in each of the three and nine months ended November 2, 2019. Pre-tax amounts of $(1) million and $(5) million for the three and nine months ended November 2, 2019, respectively, were recognized in Net interest expense in the unaudited Interim Consolidated Statements of Operations.

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

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

(In millions, except per share data)	November 2, 2019 (Unaudited)	November 3, 2018 (Unaudited)	February 2, 2019
Assets			
Current assets:			
Cash in banks and in transit	$ 147	$ 157	$ 109
Cash short-term investments	10	11	224
Cash and cash equivalents	157	168	333
Merchandise inventory	2,934	3,223	2,437
Prepaid expenses and other	285	224	189
Total current assets	3,376	3,615	2,959
Property and equipment (net of accumulated depreciation of $3,268, $3,371 and $3,425)	3,548	4,005	3,938
Operating lease assets	942	—	—
Prepaid pension	175	100	147
Other assets	658	695	677
Total Assets	$ 8,699	$ 8,415	$ 7,721
Liabilities and Stockholders' Equity			
Current liabilities:			
Merchandise accounts payable	$ 1,105	$ 1,234	$ 847
Other accounts payable and accrued expenses	899	960	995
Current operating lease liabilities	77	—	—
Current portion of finance leases and note payable	1	8	8
Current maturities of long-term debt	147	92	92
Total current liabilities	2,229	2,294	1,942
Noncurrent operating lease liabilities	1,112	—	—
Long-term finance leases and note payable	1	206	204
Long-term debt	4,011	4,161	3,716
Deferred taxes	117	138	131
Other liabilities	361	542	558
Total Liabilities	7,831	7,341	6,551
Stockholders' Equity			
Common stock[(1)]	160	158	158
Additional paid-in capital	4,720	4,711	4,713
Reinvested earnings/(accumulated deficit)	(3,694)	(3,448)	(3,373)
Accumulated other comprehensive income/(loss)	(318)	(347)	(328)
Total Stockholders' Equity	868	1,074	1,170
Total Liabilities and Stockholders' Equity	$ 8,699	$ 8,415	$ 7,721

(1) 1.25 billion shares of common stock are authorized with a par value of $0.50 per share. The total shares issued and outstanding were 320.0 million, 315.4 million and 316.1 million as of November 2, 2019, November 3, 2018 and February 2, 2019, respectively.

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

J. C. PENNEY COMPANY, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)

(In millions)	Number of Common Shares	Common Stock	Additional Paid-in Capital	Reinvested Earnings/(Accumulated Deficit)	Accumulated Other Comprehensive Income/(Loss)	Total Stockholders' Equity
February 2, 2019	**316.1**	**$ 158**	**$ 4,713**	**$ (3,373)**	**$ (328)**	**$ 1,170**
ASC 842 (Leases) and ASU 2018-02 (Stranded Taxes) adoption (See Note 2)	—	—	—	(26)	53	27
Net income/(loss)	—	—	—	(154)	—	(154)
Other comprehensive income/(loss)	—	—	—	—	(11)	(11)
Stock-based compensation and other	0.7	—	2	—	—	2
May 4, 2019	**316.8**	**$ 158**	**$ 4,715**	**$ (3,553)**	**$ (286)**	**$ 1,034**
Net income/(loss)	—	—	—	(48)	—	(48)
Other comprehensive income/(loss)	—	—	—	—	(28)	(28)
Stock-based compensation and other	0.9	1	4	—	—	5
August 3, 2019	**317.7**	**$ 159**	**$ 4,719**	**$ (3,601)**	**$ (314)**	**$ 963**
Net income/(loss)	—	—	—	(93)	—	(93)
Other comprehensive income/(loss)	—	—	—	—	(4)	(4)
Stock-based compensation and other	2.3	1	1	—	—	2
November 2, 2019	**320.0**	**$ 160**	**$ 4,720**	**$ (3,694)**	**$ (318)**	**$ 868**

(In millions)	Number of Common Shares	Common Stock	Additional Paid-in Capital	Reinvested Earnings/(Accumulated Deficit)	Accumulated Other Comprehensive Income/(Loss)	Total Stockholders' Equity
February 3, 2018	**312.0**	**$ 156**	**$ 4,705**	**$ (3,118)**	**$ (360)**	**$ 1,383**
Net income/(loss)	—	—	—	(78)	—	(78)
Other comprehensive income/(loss)	—	—	—	—	6	6
Stock-based compensation and other	2.3	1	3	—	—	4
May 5, 2018	**314.3**	**$ 157**	**$ 4,708**	**$ (3,196)**	**$ (354)**	**$ 1,315**
Net income/(loss)	—	—	—	(101)	—	(101)
Other comprehensive income/(loss)	—	—	—	—	1	1
Stock-based compensation and other	0.5	—	1	—	—	1
August 4, 2018	**314.8**	**$ 157**	**$ 4,709**	**$ (3,297)**	**$ (353)**	**$ 1,216**
Net income/(loss)	—	—	—	(151)	—	(151)
Other comprehensive income/(loss)	—	—	—	—	6	6
Stock-based compensation and other	0.6	1	2	—	—	3
November 3, 2018	**315.4**	**$ 158**	**$ 4,711**	**$ (3,448)**	**$ (347)**	**$ 1,074**

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

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J. C. PENNEY COMPANY, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

($ in millions)	Nine Months Ended November 2, 2019	Nine Months Ended November 3, 2018
Cash flows from operating activities		
Net income/(loss)	$ (295)	$ (330)
Adjustments to reconcile net income/(loss) to net cash provided by/(used in) operating activities:		
Restructuring and management transition	20	(3)
Asset impairments and other charges	—	53
Net (gain)/loss on sale of non-operating assets	(1)	—
Net (gain)/loss on sale of operating assets	2	(58)
(Gain)/loss on extinguishment of debt	(1)	23
Depreciation and amortization	415	419
Benefit plans	(44)	(56)
Stock-based compensation	9	9
Deferred taxes	(5)	(9)
Change in cash from:		
Inventory	(497)	(420)
Prepaid expenses and other	(109)	(37)
Merchandise accounts payable	258	261
Income taxes	3	(2)
Accrued expenses and other	(61)	(161)
Net cash provided by/(used in) operating activities	(306)	(311)
Cash flows from investing activities		
Capital expenditures	(226)	(321)
Net proceeds from sale of non-operating assets	1	—
Net proceeds from sale of operating assets	14	132
Joint venture return of investment	—	3
Insurance proceeds received for damage to property and equipment	—	1
Net cash provided by/(used in) investing activities	(211)	(185)
Cash flows from financing activities		
Proceeds from issuance of long-term debt	—	400
Proceeds from borrowings under the credit facility	1,827	3,466
Payments of borrowings under the credit facility	(1,398)	(3,029)
Premium on early retirement of debt	—	(20)
Payments of finance leases and note payable	(2)	(6)
Payments of long-term debt	(86)	(597)
Financing costs	—	(7)
Proceeds from stock issued under stock plans	1	2
Tax withholding payments for vested restricted stock	(1)	(3)
Net cash provided by/(used in) financing activities	341	206
Net increase/(decrease) in cash and cash equivalents	(176)	(290)
Cash and cash equivalents at beginning of period	333	458
Cash and cash equivalents at end of period	$ 157	$ 168
Supplemental cash flow information		
Income taxes received/(paid), net	$ (8)	$ (7)
Interest received/(paid), net	(230)	(242)
Supplemental non-cash investing and financing activity		
Increase/(decrease) in other accounts payable related to purchases of property and equipment and software	(18)	(29)
Remeasurement of leased assets and lease obligations	77	—

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

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

These unaudited Interim Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and in accordance with the rules and regulations of the Securities and Exchange Commission (SEC). The accompanying unaudited Interim Consolidated Financial Statements, in our opinion, include all material adjustments necessary for a fair presentation and should be read in conjunction with the audited Consolidated Financial Statements and notes thereto in our Annual Report on Form 10-K for the fiscal year ended February 2, 2019 (2018 Form 10-K). We follow 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 2018 Form 10-K. The February 2, 2019 financial information was derived from the audited Consolidated Financial Statements, with related footnotes, included in the2018 Form 10-K. Because of the seasonal nature of the retail business, operating results for interim periods are not necessarily indicative of the results that may be expected for the full year.

Fiscal Year
Our fiscal year ends on the Saturday closest to January 31. As used herein, "three months ended November 2, 2019" and "third quarter of 2019" refer to the 13-week period ended November 2, 2019, and "three months ended November 3, 2018" and "third quarter of 2018" refer to the 13-week period ended November 3, 2018. "Nine months ended November 2, 2019" and "nine months ended November 3, 2018" refer to the 39-week periods endedNovember 2, 2019 and November 3, 2018, respectively. Fiscal years 2019 and 2018 contain 52 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. Adoption of New Accounting Standards

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Codification (ASC) Topic 842,*Leases (Topic 842), a replacement of Leases (Topic 840) and updated by various targeted improvements*, which requires lessees to recognize most leases on their balance sheets as lease liabilities with corresponding right-of-use assets. The Company adopted the provisions of the new lease standard effective February 3, 2019, using the modified retrospective adoption method and the simplified transition option available in the new lease standard. This allows us to continue to apply the legacy guidance in the old standard (ASC Topic 840, *Leases* (ASC 840)), including its disclosure requirements, in the comparative periods presented in the year of adoption. The Company also elected the package of practical expedients available under the transition provisions of the new lease standard, which include a) not reassessing ASC 840 evaluations on whether expired or existing contracts contain leases, b) not reassessing lease classification, under ASC 840, and c) not revaluing initial direct costs for existing leases under ASC 840. We also elected the practical expedient to carry forward our historical accounting for any land easements on existing contracts.

In addition, the Company changed the accounting for the failed sale-leaseback of its home office to comply with the new lease standard's guidance for sale-leaseback accounting, and recorded a "day one impairment" of the new right-of-use assets that were included in previously impaired asset groups associated with long-lived assets. Per the transition guidance of the new lease standard, the failed sale-leaseback is considered a valid sale and leaseback that resulted in the removal of the related real estate assets of $153 million and the financing obligation of $208 million, and the recognition of the $55 million gain on sale in Reinvested earnings/(accumulated deficit). Adoption of the new lease accounting standard also required us to reevaluate the accounting for a $50 million promissory note issued in connection with the sale of the home office. In accordance with previous guidance, the promissory note was not recorded in the Consolidated Balance Sheets and not included in the implied gain on sale, however, under the new guidance, the promissory note is considered variable consideration under ASC 606, *Revenue for Contracts with Customers.* Accordingly, in transition, the Company did not recognize any amount for the $50 million promissory note, as management assessed the most likely amount of variable consideration to bezero given the associated local real estate market dynamics. In regards to the "day one impairment" charge, the Company evaluated the new right-of-use assets added to certain store asset groups that were previously determined to be impaired. Given the facts and circumstances that were still in existence upon adopting the new lease standard, the Company recorded an approximate $40 million impairment charge to Reinvested earnings/(accumulated deficit) to adjust the net book value of the new right-of-use assets to their fair value.

The following table provides the overall unaudited Interim Consolidated Balance Sheet impact of applying the new lease standard effective as of February 3, 2019. Due to the change in accounting for the Home Office sale-leaseback, there was a change in classification of $5 million and $15 million, respectively, in lease costs from Depreciation and amortization and Net interest expense in the prior year period to Selling, general and administrative expenses in the current year quarter and year-to-date period. There was no significant impact to the Company's unaudited Interim Consolidated Statement of Cash Flows.

	Balance as of February 3, 2019		
($ in millions)	**Balances removed under prior accounting**	**Balances added/reclassified under new lease standard**	**Net impact of new lease standard**
Prepaid expenses and other	$ —	$ (5)	$ (5)
Property and equipment	153	—	(153)
Operating lease assets	—	920	920
Other assets	—	(7)	(7)
Total assets	$ 153	$ 908	$ 755
Other accounts payable and accrued expenses	$ 4	$ (2)	$ (6)
Current operating lease liabilities	—	85	85
Current portion of finance leases and note payable	5	—	(5)
Noncurrent operating lease liabilities	—	1,086	1,086
Long-term finance leases and note payable	203	—	(203)
Deferred taxes	10	—	(10)
Other liabilities	11	(208)	(219)
Reinvested earnings/(accumulated deficit)	80	(53)	27
Total liabilities and stockholders’ equity	$ 153	$ 908	$ 755

In February 2018, the FASB issued ASU 2018-02, *Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. This standard allows companies to reclassify stranded tax effects resulting from the Tax Cuts and Jobs Act (the “Tax Act”) enacted on December 22, 2017 from Accumulated other comprehensive income/(loss) to Reinvested earnings/(accumulated deficit). We adopted ASU 2018-02 on February 3, 2019 and reclassified $53 million (net of federal income tax benefit) of income tax effects of the Tax Act from Accumulated other comprehensive income/(loss) to Reinvested earnings/(accumulated deficit).

3. Effect of New Accounting Standards

On August 28, 2018, the FASB issued ASU 2018-13, *Fair Value Measurement.* This standard is effective for public business entities in fiscal years beginning after December 15, 2019, and for interim periods within those years. Early adoption is permitted, including during an interim period. This new standard requires changes to the disclosure requirements for fair value measurements for certain Level 3 items, and specifies that some of the changes must be applied prospectively, while others should be applied retrospectively. The Company is evaluating this new standard, but does not expect it to have a significant impact on its financial statement disclosures.

4. Leases

We conduct a major part of our operations from leased premises (building or land) that include retail stores, store distribution centers, warehouses, offices and other facilities. Almost all leases include renewal options where we can extend the lease term from one to 50 years or more. We also lease equipment under finance leases for terms of primarily three to five years, and we rent or sublease certain real estate to third parties. Our lease contracts do not contain any purchase options or residual value guarantees.

Accounting Policy Applied in Fiscal 2019

At the lease commencement date, based on certain criteria, we determine if a lease is classified as an operating lease or finance lease and then recognize a right-of-use asset and a lease liability on the Consolidated Balance Sheets for all leases (with the exception of leases that have a term of twelve months or less). The lease liability is measured as the present value of unpaid lease payments measured based on the reasonably certain lease term and corresponding discount rate. The initial right-of-use asset is measured as the lease liability plus certain other costs and is reduced by any tenant allowances collected from the lessor.

Lease payments include fixed and in-substance fixed payments, variable payments based on an index or rate and termination penalties. Lease payments do not include variable lease payments other than those that depend on an index or rate or any payments not considered part of the lease (i.e. payment of the lessor's real estate taxes and insurance). Payments not considered lease payments are expensed as incurred. Some leases require additional payments based on sales and the related contingent rent is recorded as rent expense when the payment is probable. As a policy election, we consider lease payments and all related other payments as one component of a lease.

The reasonably certain lease term includes the non-cancelable lease term and any renewal option periods where we have economically compelling reasons for future exercise.

The discount rate used in our present value calculations is the rate implicit in the lease, when known, or our estimated incremental borrowing rate. Our incremental borrowing rate is estimated based on our secured borrowings and our credit risk relative to the time horizons of other publicly available data points that are consistent with the respective lease term.

Whether an operating lease or a finance lease, the lease liability is amortized over the lease term at a constant periodic interest rate. The right-of-use assets related to operating leases are amortized over the lease term on a basis that renders a straight-line amount of rent expense which encompasses the amortization and interest component of the lease. With the occurrence of certain events, the amortization pattern for an operating asset is adjusted to a straight-line basis over the remaining lease term. The right-of-use asset related to a finance lease is amortized on a straight-line basis over the lease term. Rent on short-term leases is expensed on a straight-line basis over the lease term. When a lease is modified or there is a change in lease term, we assess for any change in lease classification and remeasure the lease liability with a corresponding increase or decrease to the right-of-use asset.

Sale-leasebacks are transactions through which we sell assets and subsequently lease them back. The resulting leases that qualify for sale-leaseback accounting are evaluated and accounted for as an operating lease. A transaction that does not qualify for sale-leaseback accounting as a result of finance lease classification or the failure to meet certain revenue recognition criteria is accounted for as a financing transaction. For a financing transaction, we retain the "sold" assets within property and equipment and record a financing obligation equal to the amount of cash proceeds received. Rental payments under such transactions are recognized as a reduction of the financing obligation and as interest expense using an effective interest method.

Accounting Policy Applied in Fiscal 2018

Our lease accounting policies for lease contracts in fiscal 2018 and prior are disclosed in the 2018 Form 10-K.

Leases

($ in millions)	Classification	November 2, 2019
Assets		
Operating lease assets	Operating lease assets	$ 942
Finance lease assets	Property and equipment	1
Total leased assets		$ 943
Liabilities		
Current		
Operating	Current operating lease liabilities	$ 77
Finance	Current portion of finance leases and note payable	—
Noncurrent		
Operating	Noncurrent operating lease liabilities	1,112
Finance	Long-term finance leases and note payable	1
Total leased liabilities		$ 1,190

Lease Cost

		Three Months Ended	Nine Months Ended
($ in millions)	Classification	November 2, 2019	November 2, 2019
Operating lease cost	Selling, general and administrative expense (SG&A)	$ 48	$ 146
Variable lease cost	Selling, general and administrative expense (SG&A)	32	96
Finance lease cost			
Amortization of leased assets	Depreciation and amortization	—	—
Interest on lease liabilities	Net interest expense	—	—
Rental income	Real estate and other, net	2	7
Net lease cost		$ 78	$ 235

As of November 2, 2019, future lease payments were as follows:

($ in millions)	Operating Leases	Finance Leases	Total
2019	$ 52	$ —	$ 52
2020	200	—	200
2021	195	—	195
2022	182	—	182
2023	178	—	178
Thereafter	1,901	2	1,903
Total lease payments	2,708	2	2,710
Less: amounts representing interest	(1,519)	(1)	(1,520)
Present value of lease liabilities	$ 1,189	$ 1	$ 1,190

Lease term and discount rate are as follows:

	November 2, 2019
Weighted-average remaining lease term (years)	
Operating leases	16
Financing leases	8
Weighted-average discount rate	
Operating leases	11%
Financing leases	6%

Other information:

	Nine Months Ended
($ in millions)	November 2, 2019
Cash paid for amounts included in the measurement of these liabilities	
Operating cash flows from operating leases	152
Operating cash flows from finance leases	1
Financing cash flows from finance leases	1

As determined prior to the adoption of the new lease standard, the future minimum lease payments under operating leases in effect as of February 2, 2019 were as follows:

($ in millions)		
2019	$	190
2020		178
2021		163
2022		148
2023		135
Thereafter		1,626
Less: sublease income		(43)
Total minimum lease payments	$	2,397

5. 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.
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 nine months ended November 2, 2019 and November 3, 2018:

	Three Months Ended				Nine Months Ended			
($ in millions)	November 2, 2019		November 3, 2018		November 2, 2019		November 3, 2018	
Women's apparel	$ 514	21%	$ 544	21%	$ 1,596	22%	$ 1,678	21%
Men's apparel and accessories	524	22%	552	21%	1,539	21%	1,615	20%
Women's accessories, including Sephora	324	14%	353	13%	1,092	15%	1,173	15%
Home	229	10%	357	13%	780	11%	1,073	13%
Children's, including toys	253	11%	280	11%	669	9%	728	9%
Footwear	281	12%	296	11%	809	11%	852	11%
Jewelry	106	4%	108	4%	368	5%	359	4%
Services and other	153	6%	163	6%	479	6%	521	7%
Total net sales	$ 2,384	100%	$ 2,653	100%	$ 7,332	100%	$ 7,999	100%

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

The Company has contract liabilities associated with the sales of gift cards and our customer loyalty program.
The liabilities are included in Other accounts payable and accrued expenses in the unaudited Interim Consolidated Balance Sheets and were as follows:

(in millions)	November 2, 2019	November 3, 2018	February 2, 2019
Gift cards	$ 110	$ 111	$ 140
Loyalty rewards	63	60	60
Total contract liability	$ 173	$ 171	$ 200

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 nine months of 2019 and 2018 are as follows:

(in millions)	2019	2018
Beginning balance	$ 200	$ 217
Current period gift cards sold and loyalty reward points earned	251	232
Net sales from amounts included in contract liability opening balances	(71)	(75)
Net sales from current period usage	(207)	(203)
Ending balance	$ 173	$ 171

6. Earnings/(Loss) per Share

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

(in millions, except per share data)	Three Months Ended November 2, 2019	Three Months Ended November 3, 2018	Nine Months Ended November 2, 2019	Nine Months Ended November 3, 2018
Earnings/(loss)				
Net income/(loss)	$ (93)	$ (151)	$ (295)	$ (330)
Shares				
Weighted average common shares outstanding (basic shares)	320.9	316.3	319.3	315.3
Adjustment for assumed dilution:				
Stock options, restricted stock awards and warrant	—	—	—	—
Weighted average shares assuming dilution (diluted shares)	320.9	316.3	319.3	315.3
EPS				
Basic	$ (0.29)	$ (0.48)	$ (0.92)	$ (1.05)
Diluted	$ (0.29)	$ (0.48)	$ (0.92)	$ (1.05)

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

(Shares in millions)	Three Months Ended November 2, 2019	Three Months Ended November 3, 2018	Nine Months Ended November 2, 2019	Nine Months Ended November 3, 2018
Stock options, restricted stock awards and warrant	23.8	22.9	23.7	25.8

7. Long-Term Debt

($ in millions)	November 2, 2019	November 3, 2018	February 2, 2019
Issue:			
8.125% Senior Notes Due 2019	$ —	$ 50	$ 50
5.65% Senior Notes Due 2020 (1)	105	110	110
2017 Credit Facility (Matures in 2022)	429	437	—
2016 Term Loan Facility (Matures in 2023)	1,551	1,593	1,583
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	400	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	4,198	4,303	3,856
Unamortized debt issuance costs	(40)	(50)	(48)
Less: current maturities	(147)	(92)	(92)
Total long-term debt	$ 4,011	$ 4,161	$ 3,716

(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%.

As of November 2, 2019, there were $429 million in outstanding borrowings under our $2.35 billion senior secured asset-based revolving credit facility (2017 Credit Facility). 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.

8. 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, 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 are party to 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. On September 4, 2018 we entered into additional forward interest rate swap agreements with notional amounts totaling $750 million to fix a portion of our variable LIBOR-based interest payments. The forward interest rate swap agreements have a weighted-average fixed rate of 3.135%, have an effective date from May 7, 2020 to May 7, 2025 and have been designated as cash flow hedges.

The fair value of our interest rate swaps (see Note 10) are recorded in the unaudited Interim Consolidated Balance Sheets as an asset or a liability based upon its change in fair values from its effective date. The effective portion of the interest rate swaps' changes in fair values is reported in Accumulated other comprehensive income/(loss) (see Note 11), 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			
($ in millions)	**Balance Sheet Location**	**November 2, 2019**	**November 3, 2018**	**February 2, 2019**	**Balance Sheet Location**	**November 2, 2019**	**November 3, 2018**	**February 2, 2019**
Derivatives designated as hedging instruments:								
Interest rate swaps	Prepaid expenses and other	$ —	$ 1	$ —	Other accounts payable and accrued expenses	$ —	$ —	$ —
Interest rate swaps	Other assets	—	23	10	Other liabilities	53	—	15
Total derivatives designated as hedging instruments		$ —	$ 24	$ 10		$ 53	$ —	$ 15

9. Restructuring and Management Transition

In the first quarter of 2019, the Company finalized plans to close 18 full-line stores and 9 ancillary home and furniture stores, further aligning the Company's brick-and-mortar presence with its omnichannel network, and enabling capital resources to be reallocated to locations and initiatives that offer the greatest long-term value potential. The planned store closures resulted in a $14 million asset impairment charge for store assets with limited future use and a $1 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 and other advisory costs;

- **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:

	Three Months Ended		Nine Months Ended		Cumulative Amount From Program Inception Through November 2, 2019
($ in millions)	**November 2, 2019**	**November 3, 2018**	**November 2, 2019**	**November 3, 2018**	
Home office and stores	$ 8	$ 2	$ 31	$ 11	$ 517
Management transition	1	9	5	9	269
Total	$ 9	$ 11	$ 36	$ 20	$ 786

Activity for the Restructuring and management transition liability for the nine months ended November 2, 2019 was as follows:

($ in millions)	Home Office and Stores	Management Transition	Other	Total
February 2, 2019	$ 16	$ —	$ 2	$ 18
ASC 842 (Leases) adoption (See Note 2)	(15)	—	—	(15)
Charges	11	5	—	16
Cash payments	(8)	(3)	(2)	(13)
November 2, 2019	$ 4	$ 2	$ —	$ 6

10. 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
The fair value of our cash flow hedges are valued in the market using discounted cash flow techniques, which use quoted market interest rates in discounted cash flow calculations that 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 stores in 2019, long-lived assets held and used with a carrying value of $22 million were written down to their fair value of $8 million, resulting in asset impairment charges of $14 million in the first quarter of 2019. Additionally, in connection with the adoption of the new lease accounting standard, right-of-use assets of $58 million were written down to their fair value of $19 million. 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 nine months ended November 3, 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:

	November 2, 2019		November 3, 2018		February 2, 2019	
($ in millions)	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Total debt, excluding unamortized debt issuance costs, finance leases and note payable	$ 4,198	$ 2,993	$ 4,303	$ 3,157	$ 3,856	$ 2,579

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 November 2, 2019, November 3, 2018 and February 2, 2019, 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.

11. Accumulated Other Comprehensive Income/(Loss)

The following tables show the changes in accumulated other comprehensive income/(loss) balances for thenine months ended November 2, 2019 and the nine months ended November 3, 2018:

($ in millions)	Net Actuarial Gain/(Loss)	Prior Service Credit/(Cost)	Foreign Currency Translation	Gain/(Loss) on Cash Flow Hedges	Accumulated Other Comprehensive Income/(Loss)
February 2, 2019	$ (290)	$ (22)	$ (1)	$ (15)	$ (328)
ASU 2018-02 (Stranded Taxes) adoption (See Note 2)	46	3	—	4	53
Other comprehensive income/(loss) before reclassifications	—	—	—	(44)	(44)
Amounts reclassified from accumulated other comprehensive income	—	6	—	(5)	1
November 2, 2019	$ (244)	$ (13)	$ (1)	$ (60)	$ (318)

($ in millions)	Net Actuarial Gain/(Loss)	Prior Service Credit/(Cost)	Foreign Currency Translation	Gain/(Loss) on Cash Flow Hedges	Accumulated Other Comprehensive Income/(Loss)
February 3, 2018	$ (330)	$ (26)	$ —	$ (4)	$ (360)
Other comprehensive income/(loss) before reclassifications	—	—	—	10	10
Amounts reclassified from accumulated other comprehensive income	—	3	—	—	3
November 3, 2018	$ (330)	$ (23)	$ —	$ 6	$ (347)

12. 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:

	Three Months Ended		Nine Months Ended	
($ in millions)	November 2, 2019	November 3, 2018	November 2, 2019	November 3, 2018
Service cost	$ 7	$ 9	$ 21	$ 28
Other components of net periodic pension cost/(income):				
Interest cost	33	34	99	104
Expected return on plan assets	(48)	(55)	(144)	(167)
Amortization of prior service cost/(credit)	2	2	6	6
	(13)	(19)	(39)	(57)
Net periodic pension expense/(income)	$ (6)	$ (10)	$ (18)	$ (29)

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

13. 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, certain asset impairments, accruals for certain litigation and other non-operating charges and credits.

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

	Three Months Ended		Nine Months Ended	
($ in millions)	November 2, 2019	November 3, 2018	November 2, 2019	November 3, 2018
Net (gain)/loss from sale of non-operating assets	$ —	$ —	$ (1)	$ —
Investment income from Home Office Land Joint Venture	—	(3)	—	(4)
Net (gain)/loss from sale of operating assets	(1)	(1)	2	(58)
Impairments	—	—	—	52
Other	—	(3)	(4)	(3)
Total expense/(income)	$ (1)	$ (7)	$ (3)	$ (13)

Net (Gain)/Loss from Sale of Operating Assets
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.

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. During the third quarter of 2018, the third airplane was sold at its fair value of $8 million.

14. Income Taxes

The net tax benefit of $1 million for the three months ended November 2, 2019 consisted of federal, state and foreign tax expenses of $1 million, $1 million of expense related to the deferred tax asset change arising from the tax amortization of indefinite-lived intangible assets and a $3 million benefit due to the release of valuation allowance.

The net tax expense of $5 million for the nine months ended November 2, 2019 consisted of federal, state and foreign tax expenses of $7 million, $3 million of expense related to the deferred tax asset change arising from the tax amortization of indefinite-lived intangible assets and a $5 million benefit due to the release of valuation allowance.

As of November 2, 2019, we have approximately $2.1 billion of net operating losses (NOLs) available for U.S. federal income tax purposes, which largely expire in 2032 through 2034; $337 million of federal unused interest deductions that do not expire; and $70 million of tax credit carryforwards that expire at various dates through 2037. Additionally, we have state NOLs that are subject to various limitations and expiration dates beginning in 2019 through 2040 and are offset fully by valuation allowances. A valuation allowance of $609 million fully offsets the federal deferred tax assets resulting from the NOLs, unused interest deductions and tax credit carryforwards that expire at various dates through 2037. A valuation allowance of $253 million fully offsets the deferred tax assets resulting from the state NOL carryforwards that expire at various dates through 2040. 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 months ended November 2, 2019, the valuation allowance net increase of $21 million consisted of $20 million to offset the net deferred tax assets created in the quarter primarily due to the increase in NOL carryforwards, and a $1 million offset to the tax benefit attributable to the loss recorded in Other comprehensive income/(loss). For the nine months ended November 2, 2019, the valuation allowance net increase of $60 million consisted of $65 million to offset the net deferred tax assets created in the period primarily due to the increase in NOL carryforwards, $11 million which offsets the tax benefit attributable to the loss recorded in Other comprehensive income/(loss), offset by a $16 million benefit related to lease accounting.

15. Litigation and Other Contingencies

Litigation

Shareholder Derivative Litigation and Demand

On October 19, 2018, a shareholder of the Company, Juan Rojas, filed a shareholder derivative action against certain present and former members of the Company's Board of Directors in the Delaware Court of Chancery. The Company was named as a nominal defendant. The lawsuit asserted claims for breaches of fiduciary duties based on alleged failures to prevent the Company from engaging in allegedly unlawful promotional pricing practices. On July 29, 2019, the Court granted defendants' motion to dismiss and dismissed plaintiff's complaint with prejudice.

On October 21, 2019, the Company's Board of Directors received a demand from Rojas to conduct an investigation of alleged breaches of fiduciary duties similar to those made in the dismissed derivative action regarding alleged failures to prevent the Company from engaging in allegedly unlawful promotional pricing practices.

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

Other Legal Proceedings

We are subject to various 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, 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 November 2, 2019, we have an estimated accrual of $19 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 and remediation of environmental conditions involving our former drugstore locations. 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, liquidity or capital resources.

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

General

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

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

This discussion is intended to provide information that will assist the reader in understanding our financial statements, the changes in certain key items in those financial statements from period to period, and the primary factors that accounted for those changes, how operating results affect the financial condition and results of operations of our Company as a whole, as well as how certain accounting principles affect the financial statements. It should be read in conjunction with our consolidated financial statements as of February 2, 2019, 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 Company's Annual Report on Form

10-K for the fiscal year endedFebruary 2, 2019 (2018 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.

Plan for Renewal

On November 15, 2019, the Company announced its Plan for Renewal to return JCPenney to sustainable, profitable growth. Coupled with our deep understanding of the customer, these five components of our Plan for Renewal guide everything we do:

- Drive traffic;
- Offer compelling merchandise;
- Provide an engaging experience;
- Fuel growth; and
- Build a results-minded culture.

To drive traffic, we plan to use our space to present our merchandise with a fresh approach and provide experiences and services that customers want and are giving us permission to offer. Our main customer focus segment will be to deliver on the important emotional drivers of the All-in Shopping Enthusiast, serious shoppers who respond most to compelling merchandise and engaging experiences.

We plan to transform our merchandising efforts centered around offering compelling merchandise within the five lifestyles of how our customers, and in particular the All-in Shopping Enthusiast, live and want to shop:

- MOVE - for everything from low to high impact;
- CHILL - for the stylish 5-to-9 customer and great lounge and sleepwear;
- ALL DAY - for casual work wear and weekend wear;
- ON-POINT - for when a customer wants to be a bit more refined and polished; and
- SHINE - for those special occasions.

Another element of providing compelling merchandise is our visual merchandising strategy creating an emotional connection with our customer. We have tested visual merchandising in Women's apparel within the five lifestyles and recently implemented this strategy into 92 stores. We are currently measuring the impact and we will continue to refine and expand this effort in a way that best serves the business.

We also plan to create an inspiring, shared experience showcasing compelling products and brands along with differentiating elements at a newly opened brand defining store. The brand defining store is the fullest articulation of our planned customer strategy, and is a store where we can leverage insights from customer feedback yet also observe customer preferences and shopping behaviors.

To fuel growth, we plan to implement cost reduction and efficiency initiatives across the organization. In addition to our cost reduction efforts, we plan to improve the health of our balance sheet and capital structure. We have outlined three main objectives: we will continue to maintain more than adequate liquidity to fund the operations of our business; we will proactively manage our existing outstanding debt maturities; and, we will maintain flexibility in how the business is funded to ensure sustainable and profitable growth.

Lastly, we are developing a results-minded culture focused on accountability, urgency, and innovative problem solving at all levels of the organization, and we are building a culture that connects all associates to achievements larger than the individual. It is imperative that all our associates understand where we are going as a company and how their role contributes to our success and are innately connected to our plan for renewal.

Third Quarter Overview

- Total net sales were $2,384 million with a total net sales decrease of 10.1% compared to the third quarter of 2018 and a comparable store sales decrease of 9.3%. Adjusted comparable store sales, which exclude the impact of the Company's exit from major appliance and in-store furniture categories, decreased 6.6% for the quarter. 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.

- Credit income and other was $116 million compared to $80 million in last year's third quarter. The increase was due to an increase in our income share which resulted from improved performance of the credit portfolio.

- Cost of goods sold, which excludes depreciation and amortization, as a percentage of Total net sales decreased to 64.6% compared to 68.1% in the same period last year. The decrease as a percentage of sales was primarily driven by an increase in selling margins, the exit of the major appliance and in-store furniture categories earlier this year and improved inventory shrinkage as a percentage of net sales.

- Selling, general and administrative (SG&A) expenses as a percentage of Total net sales increased to 35.8% for the third quarter of 2019 as compared to 33.3% for the same period last year. Last year, SG&A included approximately $26 million in expense offsets related to the buyout of a leasehold interest. Additionally, due to the implementation of the new lease accounting standard, approximately $5 million in expenses for the third quarter related to the Company's home office lease, which were previously classified as interest and depreciation, are now included in SG&A.

- Our net loss was $93 million, or ($0.29) per share, compared to a net loss of $151 million, or ($0.48) 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:

    - $9 million, or ($0.03) per share, of restructuring and management transition charges; and
    - $13 million, or $0.04 per share, for other components of net periodic pension income.

- Adjusted net loss (non-GAAP) was $97 million, or ($0.30) per share, compared to an adjusted net loss (non-GAAP) of $164 million, or ($0.52) per share, in last year's third quarter. 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.

- Adjusted earnings before interest expense, income tax (benefit)/expense and depreciation and amortization (Adjusted EBITDA) (non-GAAP) was $106 million, a $60 million improvement from the same period last year. 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.

Results of Operations

($ in millions, except EPS)	Three Months Ended November 2, 2019	Three Months Ended November 3, 2018	Nine Months Ended November 2, 2019	Nine Months Ended November 3, 2018
Total net sales	$ 2,384	$ 2,653	$ 7,332	$ 7,999
Credit income and other	116	80	342	234
Total revenues	2,500	2,733	7,674	8,233
Total net sales increase/(decrease) from prior year	(10.1)%	(5.8)%	(8.3)%	(5.9)%
Comparable store sales increase/(decrease) (1)	(9.3)%	(5.4)%	(8.0)%	(1.7)%
Adjusted comparable store sales increase/(decrease) (non-GAAP) (2)	(6.6)%	(4.0)%	(5.9)%	(1.2)%
Costs and expenses/(income):				
Cost of goods sold (exclusive of depreciation and amortization shown separately below)	1,541	1,808	4,756	5,351
Selling, general and administrative	854	883	2,580	2,589
Depreciation and amortization	131	138	415	419
Real estate and other, net	(1)	(7)	(3)	(13)
Restructuring and management transition	9	11	36	20
Total costs and expenses	2,534	2,833	7,784	8,366
Operating income/(loss)	(34)	(100)	(110)	(133)
Other components of net periodic pension cost/(income)	(13)	(19)	(39)	(57)
(Gain)/loss on extinguishment of debt	—	—	(1)	23
Net interest expense	73	78	220	235
Income/(loss) before income taxes	(94)	(159)	(290)	(334)
Income tax expense/(benefit)	(1)	(8)	5	(4)
Net income/(loss)	$ (93)	$ (151)	$ (295)	$ (330)
Adjusted EBITDA (non-GAAP) (2)	$ 106	$ 46	$ 340	$ 302
Adjusted net income/(loss) (non-GAAP) (2)	$ (97)	$ (164)	$ (300)	$ (353)
Diluted EPS	$ (0.29)	$ (0.48)	$ (0.92)	$ (1.05)
Adjusted diluted EPS (non-GAAP) (2)	$ (0.30)	$ (0.52)	$ (0.94)	$ (1.12)
Ratios as a percentage of total net sales:				
Cost of goods sold	64.6 %	68.1 %	64.9 %	66.9 %
SG&A	35.8 %	33.3 %	35.2 %	32.4 %
Operating income/(loss)	(1.4)%	(3.8)%	(1.5)%	(1.7)%

(1) 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.

(2) 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

($ in millions)	Three Months Ended November 2, 2019	Three Months Ended November 3, 2018	Nine Months Ended November 2, 2019	Nine Months Ended November 3, 2018
Total net sales	$ 2,384	$ 2,653	$ 7,332	$ 7,999
Sales percent increase/(decrease):				
Total net sales	(10.1)%	(5.8)%	(8.3)%	(5.9)%
Comparable store sales	(9.3)%	(5.4)%	(8.0)%	(1.7)%
Adjusted comparable store sales increase/(decrease) (non-GAAP) (1)	(6.6)%	(4.0)%	(5.9)%	(1.2)%

(1) 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.

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

($ in millions)	Three Months Ended November 2, 2019	Nine Months Ended November 2, 2019
Comparable store sales increase/(decrease)	$ (238)	$ (616)
Closed stores and other	(31)	(51)
Total net sales increase/(decrease)	$ (269)	$ (667)

As our omnichannel strategy continues to evolve, 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 the JCPenney app can receive mobile coupons to use when they check out both online or in our stores.
- Internet orders can be shipped from a dedicated jcpenney.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 jcpenney.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 same day" is available in all of our stores.

For the third quarter and first nine months of 2019, average unit retail selling price increased, while units per transaction and transaction counts decreased as compared to the same periods last year.

For the third quarter and first nine months of 2019, our top performing merchandise divisions were Jewelry, Men's apparel and accessories,Women's apparel and Footwear on a comparable store basis.

During both the third quarter and first nine months of 2019, private brand merchandise and exclusive brand merchandise comprised 46% and 6% of total merchandise sales, respectively. During both the third quarter and first nine months of 2018, private brand merchandise and exclusive brand merchandise comprised 45% and 7% of total merchandise sales, respectively.

Store Count

The following table compares the number of stores for the three and nine months ended November 2, 2019 and November 3, 2018:

	Three Months Ended		Nine Months Ended	
	November 2, 2019	November 3, 2018	November 2, 2019	November 3, 2018
JCPenney department stores				
Beginning of period	846	865	864	872
Stores opened	—	—	—	1
Closed stores	—	(1)	(18)	(9)
End of period (1)	846	864	846	864

(1) Gross selling space, including selling space allocated to services and licensed departments, was 93 million square feet as of November 2, 2019 and 95 million square feet as of November 3, 2018.

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, 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 third quarters of 2019 and 2018, we recognized income of $116 million and $80 million, respectively, pursuant to our agreement with Synchrony. For the first nine months of 2019 and 2018, we recognized income of $342 million and $234 million, respectively. The increase for the three and nine month periods is due to increased income share resulting from the improved performance of the credit card portfolio.

Cost of Goods Sold

Cost of goods sold, exclusive of depreciation and amortization, for the three months ended November 2, 2019 was $1,541 million, a decrease of $267 million compared to $1,808 million for the three months ended November 3, 2018. Cost of goods sold as a percentage of Total net sales was 64.6% for the three months ended November 2, 2019 compared to 68.1% for the three months ended November 3, 2018, a decrease of 350 basis points. Cost of goods sold, exclusive of depreciation and amortization, for the nine months ended November 2, 2019 was $4,756 million, a decrease of $595 million compared to $5,351 million for the nine months ended November 3, 2018. Cost of goods sold as a percentage of Total net sales was 64.9% for the nine months ended November 2, 2019 compared to 66.9% for the nine months ended November 3, 2018, a decrease of 200 basis points. The decrease as a percentage of sales was primarily driven by an increase in selling margins, the exit of major appliance and in-store furniture categories earlier this year and improved inventory shrinkage as a percentage of net sales.

SG&A Expenses

For the three months ended November 2, 2019, SG&A expenses were $854 million compared to $883 million in the corresponding period of 2018. SG&A expenses as a percentage of Total net sales for the third quarter of 2019 increased to 35.8% compared to 33.3% in the third quarter of 2018. For the nine months ended November 2, 2019, SG&A expenses were $2,580 million compared to $2,589 million in the corresponding period of 2018. SG&A expenses as a percentage of Total net sales for the first nine months of 2019 increased to 35.2% compared to 32.4% in the first nine months of 2018. The year-over-year decrease in SG&A dollars for the third quarter was primarily due to lower advertising and store controllable expenses, which were offset by slightly higher incentive compensation. During the third quarter of 2018, SG&A included approximately $26 million in expense offsets related to the sale of a leasehold interest. During the first nine months of 2018, SG&A included approximately $73 million in expense offsets related to the sale of leasehold interests as well as the reversal of previously accrued risk insurance reserves. Additionally, due to the implementation of the new lease accounting standard, approximately $5 million and $15 million in expenses in the third quarter and first nine months of 2019, respectively, related to the Company's home office lease, which were previously classified as interest and depreciation, are now included in SG&A. The year-over-year increase in SG&A expenses as a percentage of Total net sales during the three and nine month periods was primarily a result of de-leveraging driven by our negative comparable store sales performance.

Depreciation and Amortization Expense

Depreciation and amortization expense was $131 million and $138 million for the three months ended November 2, 2019 and November 3, 2018, respectively. Depreciation and amortization expense was $415 million and $419 million for the nine months ended November 2, 2019 and November 3, 2018, respectively.

Restructuring and Management Transition

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

	Three Months Ended		Nine Months Ended	
($ in millions)	**November 2, 2019**	**November 3, 2018**	**November 2, 2019**	**November 3, 2018**
Home office and stores	$ 8	$ 2	$ 31	$ 11
Management transition	1	9	5	9
Total	$ 9	$ 11	$ 36	$ 20

During the nine months ended November 2, 2019 and November 3, 2018, we recorded $31 million and $11 million, respectively, of costs to reduce our store and home office expenses. Costs during the first nine months of 2019 include store impairments of $14 million and accelerated depreciation of $6 million related to announced store closures, employee termination benefits of $4 million, store related closing costs of $4 million and advisory costs of $3 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.

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

	Three Months Ended		Nine Months Ended	
($ in millions)	**November 2, 2019**	**November 3, 2018**	**November 2, 2019**	**November 3, 2018**
Net (gain)/loss from sale of non-operating assets	$ —	$ —	$ (1)	$ —
Investment income from Home Office Land Joint Venture	—	(3)	—	(4)
Net (gain)/loss from sale of operating assets	$ (1)	$ (1)	2	(58)
Impairments	—	—	—	52
Other	—	(3)	(4)	(3)
Total expense/(income)	$ (1)	$ (7)	$ (3)	$ (13)

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 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. During the third quarter of 2018, the third airplane was sold at its fair value of $8 million.

Operating Income/(Loss)

For the third quarter of 2019, we reported an operating loss of $34 million compared to an operating loss of $100 million in the third quarter of 2018. For the first nine months of 2019, we reported an operating loss of $110 million compared to an operating loss of $133 million in the first nine months of 2018.

Other Components of Net Periodic Pension Cost/(Income)

Other components of net periodic pension cost/(income) was $(13) million and $(19) million for the three months ended November 2, 2019 and November 3, 2018, respectively. Other components of net periodic pension cost/(income) was $(39) million and $(57) million for the nine months ended November 2, 2019 and November 3, 2018, respectively.

(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.

Net Interest Expense

Net interest expense for the third quarter of 2019 was $73 million compared to $78 million in the third quarter of 2018.

Net interest expense for the first nine months of 2019 was $220 million compared to $235 million in the first nine months of 2018. The reduction in net interest expense is primarily due to the change in presentation of lease costs related to the home office.

Income Taxes
The net tax benefit of $1 million for the three months ended November 2, 2019 consisted of federal, state and foreign tax expenses of $1 million, $1 million of expense related to the deferred tax asset change arising from the tax amortization of indefinite-lived intangible assets and a $3 million benefit due to the release of valuation allowance.

The net tax expense of $5 million for the nine months ended November 2, 2019 consisted of federal, state and foreign tax expenses of $7 million, $3 million of expense related to the deferred tax asset change arising from the tax amortization of indefinite-lived intangible assets and a $5 million benefit due to the release of valuation allowance.

As of November 2, 2019, we have approximately $2.1 billion of net operating losses (NOLs) available for U.S. federal income tax purposes, which largely expire in 2032 through 2034; $337 million of federal unused interest deductions that do not expire; and$70 million of tax credit carryforwards that expire at various dates through 2037. Additionally, we have state NOLs that are subject to various limitations and expiration dates beginning in 2019 through 2040 and are offset fully by valuation allowances. A valuation allowance of $609 million fully offsets the federal deferred tax assets resulting from the NOL, unused interest deductions and tax credit carryforwards that expire at various dates through 2037. A valuation allowance of $253 million fully offsets the deferred tax assets resulting from the state NOL carryforwards that expire at various dates through 2040. 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 months ended November 2, 2019, the valuation allowance net increase of $21 million consisted of $20 million to offset the net deferred tax assets created in the quarter primarily due to the increase in NOL carryforwards and a $1 million offset to the tax benefit attributable to the loss recorded in Other comprehensive income/(loss). For the nine months ended November 2, 2019, the valuation allowance net increase of $60 million consisted of $65 million to offset the net deferred tax assets created in the period primarily due to the increase in NOL carryforwards, $11 million which offsets the tax benefit attributable to the loss recorded in Other comprehensive income/(loss), offset by a $16 million benefit related to lease accounting.

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 net (gain)/loss on the sale of non-operating assets, the proportional share of net income from our joint venture formed to develop the excess property adjacent to our home office in Plano, Texas (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. 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 net (gain)/loss on the sale of non-operating assets, 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 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 jcpenney.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) 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 net (gain)/loss on the sale of non-operating assets, 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:

	Three Months Ended		Nine Months Ended	
($ in millions)	November 2, 2019	November 3, 2018	November 2, 2019	November 3, 2018
Net income/(loss)	$ (93)	$ (151)	$ (295)	$ (330)
Add: Net interest expense	73	78	220	235
Add: (Gain)/loss on extinguishment of debt	—	—	(1)	23
Add: Income tax expense/(benefit)	(1)	(8)	5	(4)
Add: Depreciation and amortization	131	138	415	419
Add: Restructuring and management transition charges	9	11	36	20
Add: Other components of net periodic pension cost/(income)	(13)	(19)	(39)	(57)
Less: Net (gain)/loss on the sale of non-operating assets	—	—	(1)	—
Less: Proportional share of net income from joint venture	—	(3)	—	(4)
Adjusted EBITDA (non-GAAP)	$ 106	$ 46	$ 340	$ 302

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		Nine Months Ended	
($ in millions, except per share data)	November 2, 2019	November 3, 2018	November 2, 2019	November 3, 2018
Net income/(loss)	$ (93)	$ (151)	$ (295)	$ (330)
Diluted EPS	$ (0.29)	$ (0.48)	$ (0.92)	$ (1.05)
Add: Restructuring and management transition charges [(1)]	9	11	36	20
Add: Other components of net periodic pension cost/(income) [(1)]	(13)	(19)	(39)	(57)
Add: (Gain)/loss on extinguishment of debt [(1)]	—	—	(1)	23
Less: Net (gain)/loss on sale of non-operating assets [(1)]	—	—	(1)	—
Less: Proportional share of net income from joint venture [(1)]	—	(3)	—	(4)
Less: Tax impact resulting from other comprehensive income allocation [(2)]	—	(2)	—	(5)
Adjusted net income/(loss) (non-GAAP)	$ (97)	$ (164)	$ (300)	$ (353)
Adjusted diluted EPS (non-GAAP)	$ (0.30)	$ (0.52)	$ (0.94)	$ (1.12)

(1) *Adjustments reflect no tax effect due to the impact of the Company's tax valuation allowance.*
(2) *Represents the net tax benefit that resulted from our other comprehensive income allocation between our Operating loss and Accumulated other comprehensive income.*

Adjusted Comparable Store Sales Increase/(Decrease) (Non-GAAP)
Comparable store sales is a key performance indicator used by numerous retailers to measure the sales growth of its underlying operations. Comparable store sales is considered to be a GAAP measure as the key performance indicator is measured based on GAAP net sales. Comparable store sales that excludes the impact of major appliance and in-store furniture categories is considered a non-GAAP measure. Given our elimination of these categories from our merchandise assortment, we believe that providing a comparable store sales metric that excludes the impact of major appliance and in-store furniture categories is useful for investors to evaluate the impact of these changes to our sales performance.

The following table reconciles comparable store sales increase/(decrease), the most directly comparable GAAP measure, to adjusted comparable store sales increase/(decrease), a non-GAAP measure.

	Three Months Ended		Nine Months Ended	
	November 2, 2019	November 3, 2018	November 2, 2019	November 3, 2018
Comparable store sales increase/(decrease)	(9.3)%	(5.4)%	(8.0)%	(1.7)%
Impact related to major appliance and in-store furniture categories	2.7 %	1.4 %	2.1 %	0.5 %
Adjusted comparable store sales increase/(decrease) (non-GAAP)	(6.6)%	(4.0)%	(5.9)%	(1.2)%

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 third quarter of 2019 with $157 million of cash and cash equivalents. As of the end of the third quarter of 2019, based on our borrowing base, our current borrowings and amounts reserved for outstanding letters of credit, we had $1,510 million available for future borrowings under our revolving credit facility, providing total available liquidity of $1,667 million.

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

	Nine Months Ended	
($ in millions)	November 2, 2019	November 3, 2018
Cash and cash equivalents	$ 157	$ 168
Merchandise inventory	2,934	3,223
Property and equipment, net	3,548	4,005
Total debt (1)	4,158	4,253
Stockholders' equity	868	1,074
Total capital	5,026	5,327
Maximum capacity under our Revolving Credit Facility	2,350	2,350
Cash flow from operating activities	(306)	(311)
Free cash flow (non-GAAP) (2)	(518)	(500)
Capital expenditures (3)	226	321
Ratios:		
Total debt-to-total capital (4)	83 %	80 %
Cash-to-total debt (5)	4 %	4 %

(1) Includes long-term debt, net of unamortized debt issuance costs, including current maturities 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 third quarters of 2019 and 2018, we had accrued capital expenditures of $25 million and $29 million, respectively.

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

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

Free Cash Flow (Non-GAAP)

Free cash flow is a key financial measure of our ability to generate additional cash from operating our business and in evaluating our financial performance. We define free cash flow as cash flow from operating activities, less capital expenditures 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:

	Nine Months Ended	
($ in millions)	**November 2, 2019**	**November 3, 2018**
Net cash provided by/(used in) operating activities (GAAP)	$ (306)	$ (311)
Add:		
Proceeds from sale of operating assets	14	132
Less:		
Capital expenditures [(1)]	(226)	(321)
Free cash flow (non-GAAP)	$ (518)	$ (500)
Net cash provided by/(used in) investing activities [(2)]	$ (211)	$ (185)
Net cash provided by/(used in) financing activities	$ 341	$ 206

(1) As of the end of the third quarters of 2019 and 2018, we had accrued capital expenditures of $25 million and $29 million, respectively.

(2) Net cash provided by/(used in) 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 nine months ended November 2, 2019 improved $5 million to an outflow of $306 million compared to an outflow of $311 million for the same period in 2018. Cash flows from operating activities increased slightly from the prior year period primarily due to improved operating performance.

Cash flows from operating activities for each of the first nine months of 2019 and 2018 also included construction allowances from landlords of $8 million and $12 million, respectively, which funded a portion of our capital expenditures in investing activities.

Merchandise inventory decreased $289 million, or 9.0%, to $2,934 million as of the end of the third quarter of 2019 compared to $3,223 million as of the end of the third quarter of 2018 and increased $497 million from year-end 2018. The year-over-year decline was primarily due to lower non-seasonal apparel inventory levels and the exit of the major appliance and in-store furniture categories earlier this year. Merchandise accounts payable decreased $129 million as of the end of the third quarter of 2019 compared to the corresponding prior year period and increased $258 million from year end 2018.

Investing Activities

Investing activities for the nine months ended November 2, 2019 resulted in cash outflows of $211 million compared to outflows of $185 million for the same nine month period of 2018.

Cash capital expenditures were $226 million for the nine months ended November 2, 2019 and were $321 million for the nine months ended November 3, 2018. In addition, as of the end of the third quarters of 2019 and 2018, we had $25 million and $29 million, respectively, of accrued capital expenditures. Through the first nine months of 2019, capital expenditures related primarily to investments in our store environment and store facility improvements and investments in information technology in both our home office and stores. We received construction allowances from landlords of $8 million in the first nine months of 2019 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 a reduction of operating lease assets in the unaudited Interim Consolidated Balance Sheets.

For the nine months ended November 3, 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 $12 million in the first nine months of 2018.

Full year 2019 capital expenditures are expected to be approximately $300 million to $325 million net of construction allowances from landlords. Capital expenditures for the remainder of 2019 include accrued expenditures of $25 million at the end of the third quarter.

Financing Activities
Financing activities for the nine months ended November 2, 2019 resulted in an inflow of $341 million compared to an inflow of $206 million for the same period last year. During the first nine months of 2019, we had net credit facility borrowings of $429 million and paid $50 million to retire outstanding debt at maturity and $32 million in required principal payments on outstanding debt.

During the first nine 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 $437 million. Additionally, we paid $190 million to retire outstanding debt at maturity, paid $32 million in required principal payments on outstanding debt and $6 million in required payments on our finance leases and note payable.

Free Cash Flow
Free cash flow for the nine months ended November 2, 2019 decreased $18 million to an outflow of $518 million compared to an outflow of $500 million in the same period last year. The year-over-year decline was primarily due to lower proceeds from the sale of operating assets offset by lower capital expenditures.

Cash Flow Outlook
For the remainder of 2019, 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 current initiatives.

Credit Ratings
Our credit ratings and outlook as of November 29, 2019 from various credit rating agencies were as follows:

	Corporate	Outlook
Fitch Ratings	CCC+	Not Applicable
Moody’s Investors Service, Inc.	Caa1	Stable
Standard & Poor’s Ratings Services	CCC	Negative

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

Contractual Obligations and Commitments
Aggregate information about our obligations and commitments to make future payments under contractual or contingent arrangements was disclosed in the 2018 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.

With a sizable portion of our private and national branded apparel sourced from China, we are exposed to potential increases in product costs which may result from increased tariffs imposed by the U.S. government in connection with its trade disputes with China. We expect a minimal impact on our product costs based on the current tariffs that are in effect and have taken actions to diversify our sourcing operations for private brands. However, we can expect a more meaningful increase to our product costs if potential additional tariffs go into effect on all Chinese imports and specifically in apparel and footwear.

Recently Issued Accounting Pronouncements

Recently issued accounting pronouncements are discussed in Notes 2 and 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 nine months ended November 2, 2019 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, the Company’s ability to access the debt or equity markets on favorable terms or at all and the Company's ability to comply with the continued listing criteria of the NYSE, and risks arising from the potential suspension of trading of the Company's common stock on that exchange. 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 November 2, 2019 are similar to those disclosed in the 2018 Form 10-K.

Item 4. Controls and Procedures

Based on their evaluation of our disclosure controls and procedures (as defined in Rules 13a-15 and 15d-15 under the Securities Exchange Act of 1934 (the Exchange Act)) as of the end of the period covered by this Quarterly Report on Form 10-Q, our principal executive officer and principal financial officer concluded our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and is accumulated and communicated to management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Part II. Other Information

Item 1. Legal Proceedings

The matters under the caption "Litigation" in Note 15 of the Notes to the unaudited Interim Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report on 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 2, 2019.

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;

- 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, specialty retailers, wholesale clubs, direct-to-consumer businesses, including those on the Internet, and other forms of retail commerce. Some competitors are larger than JCPenney, and/or have greater financial resources available to them, and, as a result, may be able to devote greater resources to sourcing, promoting, 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, new strategic partnerships, 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. 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 buy-online-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.

Additionally, as the regulatory environment related to information security, data collection, and use and privacy becomes increasingly rigorous, with new and constantly changing requirements applicable to our business, compliance with those requirements could also result in additional costs. For example, California recently passed the California Consumer Privacy Act of 2018 (the “CCPA”), which goes into effect in January 2020 and provides broad rights to California consumers with respect to the collection and use of their information by businesses. The CCPA expands the privacy rights of California citizens and as a result, we may need to process enhancements and commit resources in support of compliance with California’s regulatory requirements. Any failure to adhere to the requirements of the CCPA and other evolving laws and regulations in this area, or to protect confidential data about our business or our customers, employees or other third parties, could result in financial penalties and legal liability and 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.

We believe it is critical that we 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 buy-online-pickup-in-store programs. 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 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 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, the imposition of tariffs on imported merchandise, or changes to U.S. trade legislation 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 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 November 2, 2019, we have $4.158 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, 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 and operating lease assets, 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 direct private brand 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 and could result in damage to our reputation.

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

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

- potential disruptions in manufacturing, logistics and supply;
- changes in duties, tariffs, quotas and voluntary export restrictions on imported merchandise;
- strikes and other events affecting delivery;
- consumer perceptions of the safety of imported merchandise;
- product compliance with laws and regulations of the destination country;

- product liability claims from customers or penalties from government agencies relating to products that are recalled, defective or otherwise noncompliant or alleged to be harmful;
- concerns about human rights, working conditions and other labor rights and conditions and environmental impact in foreign countries where merchandise is produced and raw materials or components are sourced, and changing labor, environmental and other laws in these countries;
- local business practice and political issues that may result in adverse publicity or threatened or actual adverse consumer actions, including boycotts;
- compliance with laws and regulations concerning ethical business practices, such as the U.S. Foreign Corrupt Practices Act; and
- economic, political or other problems in countries from or through which merchandise is imported.

Political or financial instability, trade restrictions, tariffs, currency exchange rates, labor conditions, 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, the imposition of tariffs on imported merchandise or changes to U.S. trade legislation, 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, 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.

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. 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.

If we cannot meet the continued listing requirements of the NYSE, the NYSE may delist our common stock.

The Company’s common stock is listed on the New York Stock Exchange (NYSE). The NYSE has several continued listing standards that must be met to remain listed, including maintaining an average closing share price of at least $1.00 over a consecutive 30 trading-day period.

On August 6, 2019, we received a notice of noncompliance with the NYSE minimum average closing share price. On December 2, 2019, we received notice from the NYSE that we had regained compliance. Our stock price has been, and may continue to be, volatile. Accordingly, there is no assurance that we will continue to meet the NYSE’s listing requirements. If we fail to meet an NYSE listing requirement, we will consider various options to cure the deficiency during the applicable cure period and remain listed on the exchange. However, there can be no assurances that we will be successful.

If we cannot meet the NYSE continued listing requirements, the NYSE may delist our common stock. Delisting may adversely impact the perception of our financial condition, the trading of our common stock and our reputation with investors and parties conducting business with us. In addition, the perceived decreased value of employee equity incentive awards may reduce their effectiveness in encouraging performance and retention.

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$2.1 billion as of November 2, 2019. 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 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 1.68% at November 2, 2019. 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 November 2, 2019, the Company has not had a Section 382 ownership change through November 2, 2019.

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.

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: Form	SEC File No.	Exhibit	Filing Date	Filed (†) Herewith (as indicated)
3.1	Restated Certificate of Incorporation of J. C. Penney Company, Inc., as amended to May 20, 2011	10-Q	001-15274	3.1	6/8/2011	
3.2	J. C. Penney Company, Inc. Bylaws, as amended to July 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	
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					†
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					†
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL 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/ Steve Whaley

Steve Whaley
Senior Vice President, Principal Accounting Officer and Controller
(Principal Accounting Officer)

Date: December 4, 2019

Exhibit 31.1

CERTIFICATION

I, Jill Soltau, certify that:

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

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

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

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 4, 2019

/s/ Jill Soltau
Jill Soltau
Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Bill Wafford, certify that:

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

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

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

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 4, 2019

/s/ Bill Wafford
Bill Wafford
Executive Vice President, Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of J. C. Penney Company, Inc. (the "Company") on Form 10-Q for the period ended November 2, 2019 (the "Report"), I, Jill Soltau, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

(2) (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: December 4, 2019

/s/ Jill Soltau
Jill Soltau
Chief Executive Officer

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of J. C. Penney Company, Inc. (the "Company") on Form 10-Q for the period ended November 2, 2019 (the "Report"), I, Bill Wafford, Executive Vice President, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: December 4, 2019

/s/ Bill Wafford
Bill Wafford
Executive Vice President, Chief Financial Officer