

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended August 1, 2020
or

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

For the transition period from _____ to _____

Commission File Number: 1-15274

JCPenney

J. C. PENNEY COMPANY, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

26-0037077

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

6501 Legacy Drive Plano Texas

(Address of principal executive offices)

75024 - 3698

(Zip Code)

(972) 431-1000

(Registrant's telephone number, including area code)

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

Title of each class

Trading Symbol(s)

Name of each exchange on which registered

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	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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. 322,663,112 shares of Common Stock of 50 cents par value, as of September 4, 2020.

J. C. PENNEY COMPANY, INC.
(Debtor-in-Possession)

FORM 10-Q

For the Quarterly Period Ended August 1, 2020

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Part I. Financial Information

Item 1. Unaudited Interim Consolidated Financial Statements

J. C. PENNEY COMPANY, INC.
(Debtor-in-Possession)
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

<i>(In millions)</i>	Three Months Ended		Six Months Ended	
	August 1, 2020	August 3, 2019	August 1, 2020	August 3, 2019
Total net sales	\$ 1,390	\$ 2,509	\$ 2,472	\$ 4,948
Credit income and other	69	110	183	226
Total revenues	1,459	2,619	2,655	5,174
Costs and expenses/(income):				
Cost of goods sold (exclusive of depreciation and amortization shown separately below)	919	1,585	1,732	3,215
Selling, general and administrative (SG&A)	470	870	1,042	1,726
Depreciation and amortization	161	137	296	284
Real estate and other, net	(5)	3	(7)	(2)
Restructuring and management transition	67	7	222	27
Total costs and expenses	1,612	2,602	3,285	5,250
Operating income/(loss)	(153)	17	(630)	(76)
Other components of net periodic pension cost/(income)	77	(13)	54	(26)
(Gain)/loss on extinguishment of debt	—	(1)	—	(1)
Net interest expense	67	74	142	147
Loss due to discontinuance of hedge accounting	—	—	77	—
Reorganization items, net	108	—	108	—
Income/(loss) before income taxes	(405)	(43)	(1,011)	(196)
Income tax expense/(benefit)	(7)	5	(67)	6
Net income/(loss)	\$ (398)	\$ (48)	\$ (944)	\$ (202)
Earnings/(loss) per share:				
Basic	\$ (1.23)	\$ (0.15)	\$ (2.91)	\$ (0.63)
Diluted	\$ (1.23)	\$ (0.15)	\$ (2.91)	\$ (0.63)
Weighted average shares – basic	324.6	319.4	324.2	318.6
Weighted average shares – diluted	324.6	319.4	324.2	318.6

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

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

<i>(In millions)</i>	Three Months Ended		Six Months Ended	
	August 1, 2020	August 3, 2019	August 1, 2020	August 3, 2019
Net income/(loss)	\$ (398)	\$ (48)	\$ (944)	\$ (202)
Other comprehensive income/(loss), net of tax:				
Currency translations ⁽¹⁾	—	—	(1)	—
Cash flow hedges ⁽²⁾	—	(30)	—	(43)
Net actuarial gain/(loss) arising during the period ⁽³⁾	(41)	—	(41)	—
Prior service credit/(cost) arising during the period ⁽⁴⁾	4	—	4	—
Amortization of pension prior service (credit)/cost ⁽⁵⁾	2	2	3	4
Total other comprehensive income/(loss), net of tax	(35)	(28)	(35)	(39)
Total comprehensive income/(loss), net of tax	\$ (433)	\$ (76)	\$ (979)	\$ (241)

⁽¹⁾ Net of \$0 million of tax in the six months ended August 1, 2020.

⁽²⁾ Net of \$0 million in tax in the three and six months ended August 3, 2019.

⁽³⁾ Net of \$0 million of tax in the three and six months ended August 1, 2020.

⁽⁴⁾ Net of \$0 million of tax in the three and six months ended August 1, 2020.

⁽⁵⁾ Net of \$0 million of tax in each of the three and six months ended August 1, 2020, and August 3, 2019. Pre-tax amounts of \$2 million and \$2 million in the three months ended August 1, 2020, and August 3, 2019, respectively, were recognized in Other components of net periodic pension cost/(income) in the unaudited interim Consolidated Statements of Operations. Additionally, pre-tax amounts of \$3 million and \$4 million in the six months ended August 1, 2020, and August 3, 2019, were recognized in Other components of net periodic pension cost/(income) in the unaudited interim Consolidated Statements of Operations.

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

J. C. PENNEY COMPANY, INC.
(Debtor-in-Possession)
CONSOLIDATED BALANCE SHEETS
(Unaudited)

<i>(In millions, except per share data)</i>	August 1, 2020	August 3, 2019	February 1, 2020
	(Unaudited)	(Unaudited)	
Assets			
Current assets:			
Cash in banks and in transit	\$ 205	\$ 163	\$ 108
Cash short-term investments	826	12	278
Restricted cash	452	—	—
Cash, cash equivalents and restricted cash	1,483	175	386
Merchandise inventory	1,891	2,471	2,166
Prepaid expenses and other	464	275	174
Total current assets	3,838	2,921	2,726
Property and equipment (net of accumulated depreciation of \$3,622, \$3,167 and \$3,095)	3,169	3,591	3,488
Operating lease assets	772	925	998
Prepaid pension	27	166	120
Other assets	597	657	657
Total Assets	\$ 8,403	\$ 8,260	\$ 7,989
Liabilities and Stockholders' Equity			
Current liabilities:			
Merchandise accounts payable	\$ 236	\$ 878	\$ 786
Other accounts payable and accrued expenses	812	970	931
Current operating lease liabilities	—	84	68
Debtor-in-possession financing	900	—	—
Current portion of long-term debt	1,204	197	147
Total current liabilities	3,152	2,129	1,932
Noncurrent operating lease liabilities	—	1,090	1,108
Long-term debt	—	3,589	3,574
Deferred taxes	39	121	116
Other liabilities	251	368	430
Total liabilities not subject to compromise	3,442	7,297	7,160
Liabilities subject to compromise	5,050	—	—
Stockholders' (Deficit) Equity			
Common stock ⁽¹⁾	161	159	160
Additional paid-in capital	4,721	4,719	4,723
Reinvested earnings/(accumulated deficit)	(4,613)	(3,601)	(3,667)
Accumulated other comprehensive income/(loss)	(358)	(314)	(387)
Total Stockholders' (Deficit) Equity	(89)	963	829
Total Liabilities and Stockholders' (Deficit) Equity	\$ 8,403	\$ 8,260	\$ 7,989

⁽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 322.4 million, 317.7 million and 320.5 million as of August 1, 2020, August 3, 2019, and February 1, 2020, respectively.

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

J. C. PENNEY COMPANY, INC.
(Debtor-in-Possession)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' (DEFICIT) EQUITY
(Unaudited)

<i>(In millions)</i>	Number of Common Shares	Common Stock	Additional Paid- in Capital	Reinvested Earnings/(Accumulated Deficit)	Accumulated Other Comprehensive Income/(Loss)	Total Stockholders' (Deficit) Equity
February 1, 2020	320.5	\$ 160	\$ 4,723	\$ (3,667)	\$ (387)	\$ 829
Net income/(loss)	—	—	—	(546)	—	(546)
Discontinuance of hedge accounting	—	—	—	—	64	64
Stock-based compensation and other	1.4	1	2	(2)	—	1
May 2, 2020	321.9	161	4,725	(4,215)	(323)	348
Net income/(loss)	—	—	—	(398)	—	(398)
Other comprehensive income/(loss)	—	—	—	—	(35)	(35)
Stock-based compensation and other	0.5	—	(4)	—	—	(4)
August 1, 2020	322.4	\$ 161	\$ 4,721	\$ (4,613)	\$ (358)	\$ (89)

<i>(In millions)</i>	Number of Common Shares	Common Stock	Additional Paid- in Capital	Reinvested Earnings/(Accumulated Deficit)	Accumulated Other Comprehensive Income/(Loss)	Total Stockholders' Equity
February 2, 2019	316.1	\$ 158	\$ 4,713	\$ (3,373)	\$ (328)	\$ 1,170
ASC 842 (Leases) and ASU 2018-02 (Stranded Taxes) adoption (1)	—	—	—	(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

⁽¹⁾ Represents the cumulative-effect adjustments

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

J. C. PENNEY COMPANY, INC.
(Debtor-in-Possession)
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended	
	August 1, 2020	August 3, 2019
<i>(\$ in millions)</i>		
Cash flows from operating activities		
Net income/(loss)	\$ (944)	\$ (202)
Adjustments to reconcile net income/(loss) to net cash provided by/(used in) operating activities:		
Restructuring and management transition	162	17
Reorganization items, net	17	—
Net (gain)/loss on sale of non-operating assets	—	(1)
Net (gain)/loss on sale of operating assets	—	3
(Gain)/loss on extinguishment of debt	—	(1)
Discontinuance of hedge accounting	77	—
Depreciation and amortization	296	284
Benefit plans	63	(29)
Stock-based compensation	(2)	6
Deferred taxes	(69)	—
Change in cash from:		
Inventory	275	(34)
Prepaid expenses and other	(286)	(82)
Merchandise accounts payable	(48)	31
Income taxes	—	—
Accrued expenses and other	14	9
Net cash provided by/(used in) operating activities	(445)	1
Cash flows from investing activities		
Capital expenditures	(43)	(146)
Net proceeds from sale of non-operating assets	—	1
Net proceeds from sale of operating assets	1	12
Net cash provided by/(used in) investing activities	(42)	(133)
Cash flows from financing activities		
Proceeds from debtor-in-possession financing	450	—
Proceeds from borrowings under the credit facility	2,675	946
Payments of borrowings under the credit facility	(1,471)	(946)
Payments of finance leases and note payable	(1)	(1)
Payments of long-term debt	(19)	(26)
Debtor-in-possession financing fees	(50)	—
Proceeds from stock issued under stock plans	—	1
Net cash provided by/(used in) financing activities	1,584	(26)
Net increase/(decrease) in cash, cash equivalents and restricted cash	1,097	(158)
Cash and cash equivalents at beginning of period	386	333
Cash, cash equivalents and restricted cash at end of period	\$ 1,483	\$ 175
Supplemental cash flow information		
Income taxes received/(paid), net	\$ (2)	\$ (6)
Interest received/(paid), net	(164)	(139)
Supplemental non-cash investing and financing activity		
Increase/(decrease) in other accounts payable related to purchases of property and equipment and software	2	(15)
Remeasurement of leased assets and lease obligations	(107)	52

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

J. C. PENNEY COMPANY, INC.
(Debtor-In-Possession)
NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation and Consolidation

Basis of Presentation

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

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

These unaudited interim Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and in accordance with the rules and regulations of the Securities and Exchange Commission (SEC). The accompanying unaudited interim Consolidated Financial Statements, in our opinion, include all material adjustments necessary for a fair presentation and should be read in conjunction with the audited Consolidated Financial Statements and notes thereto in our Annual Report on Form 10-K for the fiscal year ended February 1, 2020 (2019 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 2019 Form 10-K. The February 1, 2020, financial information was derived from the audited Consolidated Financial Statements, with related footnotes, included in the 2019 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.

As discussed further in Note 2, on May 15, 2020 (the “Petition Date”), the Company and certain of its subsidiaries (collectively, the “Debtors”) commenced voluntary cases (the “Chapter 11 Cases”) under chapter 11 of title 11 of the United States Code (the “Bankruptcy Code”) in the United States Bankruptcy Court for the Southern District of Texas (the “Bankruptcy Court”). The Company considered impacts related to the Chapter 11 Cases and the COVID-19 pandemic (see Note 3) to its use of any estimates, as appropriate, within its unaudited interim Consolidated Financial Statements. Such estimates and assumptions are subject to inherent uncertainties, which may result in actual amounts differing from reported amounts.

Fiscal Year

Our fiscal year ends on the Saturday closest to January 31. As used herein, “three months ended August 1, 2020” and “second quarter of 2020” refer to the 13-week period ended August 1, 2020, and “three months ended August 3, 2019” and “second quarter of 2019” refer to the 13-week period ended August 3, 2019. “Six months ended August 1, 2020” and “six months ended August 3, 2019” refer to the 26-week periods ended August 1, 2020 and August 3, 2019, respectively. Fiscal years 2020 and 2019 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.

Ability to Continue as a Going Concern

The unaudited interim Consolidated Financial Statements included in this Quarterly Report on Form 10-Q have been prepared on a going concern basis of accounting, which contemplates continuity of operations, realization of assets, and satisfaction of liabilities and commitments in the normal course of business. As a result of the Chapter 11 Cases, the realization of assets and the satisfaction of liabilities are subject to significant uncertainty. While operating as a debtor-in-possession pursuant to the Bankruptcy Code, we may sell, or otherwise dispose of or liquidate, assets or settle liabilities, subject to the approval of the Bankruptcy Court or as otherwise permitted in the ordinary course of business, for amounts other than those reflected in the accompanying unaudited interim Consolidated Financial Statements. Further, a Chapter 11 plan of reorganization is likely to materially change the amounts and classifications of assets and liabilities reported in our unaudited interim Consolidated Balance Sheet as of August 1, 2020. In addition, the COVID-19 pandemic (see Note 3) has, and continues to have, a material impact on the Company’s business operations, financial position, liquidity, capital resources and results of operations. The risks and uncertainties surrounding the Chapter 11 Cases and the COVID-19 pandemic, the defaults under our debt agreements

(see Note 9), and our financial condition, raise substantial doubt as to the Company's ability to continue as a going concern. Our future plans, including those in connection with the Chapter 11 Cases, are not yet finalized, fully executed or approved by the Bankruptcy Court, and therefore cannot be deemed probable of mitigating this substantial doubt within 12 months of the date of issuance of these financial statements. Our consolidated financial statements do not include any adjustments related to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should we be unable to continue as a going concern.

Bankruptcy Accounting

The unaudited interim Consolidated Financial Statements included herein have been prepared as if we are a going concern and in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic No. 852 – *Reorganizations* (ASC 852). As a result, we have segregated liabilities and obligations whose treatment and satisfaction are dependent on the outcome of the Chapter 11 Cases and have classified these items as Liabilities Subject to Compromise on our unaudited interim Consolidated Balance Sheets. In addition, we have classified all income, expenses, gains or losses that were incurred or realized as a direct result of the Chapter 11 Cases since filing as Reorganization items in our unaudited interim Consolidated Statement of Operations.

Certain subsidiary entities are not debtors under the Chapter 11 Cases. However, condensed combined financial statements of the Debtors are not presented in the notes to the unaudited interim Consolidated Financial Statements as the assets and liabilities, operating results and cash flows of the non-debtor entities included in the unaudited interim Consolidated Financial Statements are insignificant and, therefore, the unaudited interim Consolidated Financial Statements presented herein materially represent the condensed combined financial statements of the debtor entities for all periods presented. As of August 1, 2020, total assets, total liabilities and net income of the non-debtor entities represents 0.6%, 0.2%, and (0.8)% of total consolidated assets, liabilities and net income, respectively. As of August 1, 2020, the non-debtor entities have intercompany receivables and intercompany payables from/to the debtor entities of \$17.6 million and \$0.0 million, respectively.

Restricted Cash

Amounts included in restricted cash represent those required to be set aside by a contractual agreement or requirements of the Bankruptcy Court. Amounts included in restricted cash include:

<i>(In Millions)</i>	August 1, 2020	
DIP financing funded to escrow pending resolution of contingencies (see Note 9)	\$	225
Cash collateral in escrow under the requirements of the 2017 Revolving Credit Facility		156
Cash deposited into escrow to pay bankruptcy professional fees upon emergence		52
Other		19
Total restricted cash	\$	452

2. Chapter 11 Cases

Voluntary Petition for Reorganization

On the Petition Date, the Debtors filed voluntary petitions in the Bankruptcy Court seeking relief under the Bankruptcy Code. Pursuant to order of the Bankruptcy Court, the Chapter 11 Cases are being jointly administered under the caption In re: J. C. Penney Company, Inc. et al., Case No. 20-20182 (DRJ) Documents. Documents filed on the docket of and other information related to the Chapter 11 Cases are available free of charge online at <https://cases.primeclerk.com/JCPenney>.

Pursuant to Section 362 of the Bankruptcy Code, the filing of the Chapter 11 Cases automatically stayed most actions against the Debtors, including actions to collect indebtedness incurred prior to the Petition Date or to exercise control over the Debtors' property. Subject to certain exceptions under the Bankruptcy Code, the filing of the Debtors' Chapter 11 Cases also automatically stayed the filing of most legal proceedings and other actions against or on behalf of the Debtors or their property to recover on, collect or secure a claim arising prior to the Petition Date or to exercise control over property of the Debtors' bankruptcy estates, unless and until the Court modifies or lifts the automatic stay as to any such claim.

The Debtors continue to operate their businesses as "debtors-in-possession" under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and the orders of the Bankruptcy Court. Following the Petition Date, the Bankruptcy Court entered certain interim and final orders facilitating the Debtors' operational transition into Chapter 11. These orders authorized the Debtors to, among other things, access cash collateral, pay employee wages and

benefits, honor customer programs and pay vendors and suppliers in the ordinary course for all goods and services provided after the Petition Date. These orders are significant because they allow us to operate our businesses in the normal course.

Prior to the commencement of the Chapter 11 Cases, on May 15, 2020, the Debtors entered into a Restructuring Support Agreement (together with all exhibits and schedules thereto, the “RSA”) with members of an ad hoc group of lenders and noteholders (the “Ad Hoc Group”) that held approximately 70 percent of the Debtors’ first lien debt as of such date. On or about June 7, 2020, additional lenders and noteholders (collectively, and together with the Ad Hoc Group, the “Consenting Stakeholders”) executed the RSA. As of such date, the Consenting Stakeholders held approximately 93 percent of the Debtors’ prepetition first lien debt. The RSA contemplates a restructuring process that will establish both a financially sustainable operating company and a real estate investment trust. On September 10, 2020, the Company entered into a non-binding letter-of-intent (“LOI”) with the Ad Hoc Group, Simon Property Group and Brookfield Property Group that is generally consistent with the framework of the restructuring process contemplated in the RSA. Because the LOI is non-binding, and subject to definitive documentation that must be agreed upon by all parties and subsequently approved by the Bankruptcy Court, there is no assurance that the existing LOI will ultimately result in a final, approved sale or plan of reorganization.

Financing During the Chapter 11 Cases

See Note 9 for discussion of the DIP Credit Agreement, which provides up to \$450 million in senior secured, super-priority new money financing, subject to the terms, conditions, and priorities set forth in the applicable definitive documentation and orders of the Bankruptcy Court.

Liabilities Subject to Compromise

As a result of the Chapter 11 Cases, the payment of pre-petition liabilities is generally subject to compromise pursuant to a plan of reorganization. Generally, actions to enforce or otherwise effect payment of pre-bankruptcy filing liabilities are stayed. Although payment of pre-petition claims generally is not permitted, the Bankruptcy Court granted the Debtors authority to pay certain pre-petition claims in designated categories and subject to certain terms and conditions. This relief generally was designed to preserve the value of the Debtors’ business and assets. Among other things, the Bankruptcy Court authorized, but did not require, the Debtors to pay certain pre-petition claims relating to employee wages and benefits, taxes, critical vendors and debt.

Pre-petition liabilities that are subject to compromise are required to be reported at the amounts expected to be allowed by the Bankruptcy Court, even if they may be settled for different amounts. The amounts classified as liabilities subject to compromise may be subject to future adjustments depending on Bankruptcy Court actions, further developments with respect to disputed claims, determination of secured status of certain claims, the determination as to the value of any collateral securing claims, proof of claims or other events.

The following table presents liabilities subject to compromise as reported in the unaudited interim Consolidated Balance Sheet at August 1, 2020:

<i>(In millions)</i>	August 1, 2020	
Debt ⁽¹⁾	\$	3,289
Operating leases		942
Merchandise accounts payable		503
Other accounts payable and accrued expenses		167
Other liabilities		115
Accrued interest		34
Total liabilities subject to compromise	\$	5,050

⁽¹⁾ Please see Note 9 for details of the pre-petition debt reported as liabilities subject to compromise.

Executory Contracts

Subject to certain exceptions, under the Bankruptcy Code the Debtors may assume, assign or reject executory contracts and unexpired leases subject to the approval of the Bankruptcy Court and fulfillment of other applicable conditions. Generally, the rejection of an executory contract or unexpired lease is treated as a pre-petition breach of such contract and, subject to certain exceptions, relieves the Debtors from performing future obligations under such contract but entitles the counterparty or lessor to a pre-petition general unsecured claim for damages caused by such deemed breach. Alternatively, the assumption of an executory contract or unexpired lease requires the Debtors to cure existing monetary defaults under such executory contract or unexpired lease, if any, and provide adequate assurance of future performance. Accordingly, any description of an executory

contract or unexpired lease with the Debtors in this report, including where applicable quantification of the Company's obligations under such executory or unexpired lease of the Debtors, is qualified by any overriding rejection rights the Company has under the Bankruptcy Code.

Reorganization Items, Net

Reorganization items, net represent amounts incurred after the Petition Date as a direct result of the Chapter 11 Cases and are comprised of the following for the quarter ended August 1, 2020:

<i>(In millions)</i>	Three Months Ended August 1, 2020	
Advisor fees	\$	64
Debtor-in-possession financing fees		50
Write-off of pre-petition unamortized debt issuance costs		33
Employee retention		21
Gains on lease termination		(66)
Other		6
Total reorganization items, net⁽¹⁾	\$	108

⁽¹⁾ Cash paid for reorganization items, net for the three months ended August 1, 2020, was \$9 million, which includes \$2 million in prepaid expenses and the \$50 million for DIP financing fees.

Store Asset Related Charges/Gains

In conjunction with our restructuring process that began toward the end of the first quarter of 2020 and continued into the second quarter with the bankruptcy proceedings, the Company has identified certain properties to be considered, and designated, for closing. Additionally, the filing of the Chapter 11 Cases and other restructuring considerations have resulted in various impairment analyses, the reassessment and remeasurement of certain reasonably certain lease terms and the reconsideration of the amortization periods for leasehold improvements and related fixed assets. The effects of these actions, both in the first and second quarters of 2020, resulted in multiple adjustments to store-related and other assets, including right-of-use lease assets and lease liabilities for the three-month and six-month periods ended August 1, 2020. These adjustments included impairments of long-lived assets, impairments of operating lease assets, remeasurement of certain operating lease assets and liabilities based on a reassessment of the reasonably certain lease term, and the rejection of certain leases through the Bankruptcy Court. Since these accounting write offs are primarily related to the eventual closure of stores and other properties, the Company has summarized the impact on the unaudited interim Consolidated Statement of Operations in the table below for the three-month and six-month periods ended August 1, 2020, including the caption in which each item is recorded in the unaudited interim Consolidated Statement of Operations.

<i>(In millions)</i>	Three Months Ended	Six Months Ended	August 1, 2020	Statement of Operations Line Item
	August 1, 2020	August 1, 2020		
Impairments of long-lived assets (see note 13)	\$ 26	\$ 75		Restructuring and management transition
Impairments of operating lease assets (see note 13)	2	50		Restructuring and management transition
Write off of closed store assets	1	1		Restructuring and management transition
Accelerated amortization of operating lease assets (see note 11)	11	11		SG&A
Accelerated depreciation of long-lived assets ⁽¹⁾	28	28		Depreciation and amortization
Gain on remeasurement of operating lease assets and operating lease liabilities (see notes 11 and 13)	(20)	(20)		Restructuring and management transition
Gain on store lease terminations from rejection of leases (see note 11)	(61)	(61)		Reorganization items, net
Gain on sale of closing store fixtures	(1)	(1)		Restructuring and management transition
Total	\$ (14)	\$ 83		

⁽¹⁾Represents the incremental depreciation expense recorded during the respective period due to the reduced estimated useful life of the underlying long-lived assets

The accounting standards applicable to these adjustments to long-lived assets and operating lease assets and liabilities are based on various facts and circumstances over the period from a decision to close a store (as an indicator of impairment) to the cease use date and lease rejection approval from the Bankruptcy Court. These events drive the timing of recognition and the presentation location in the unaudited interim Consolidated Statement of Operations. At the point that an operating lease for a closing store is rejected and the Company ceases use of the property, all the store's related long-lived assets will be written-off to their residual value and the store's operating lease assets and liabilities will be written down to zero. However, under the applicable accounting standards, the write down of these assets and liabilities occurs at different points in time as these stores are eventually closed and the related store leases progress toward rejection. As of August 1, the Company has additional net long-lived assets of \$50 million and net operating lease liabilities of \$79 million, recorded on the unaudited interim Consolidated Balance Sheet, all related to stores that are currently scheduled for closing. These amounts are expected to be recorded as charges/gains to the statement of operations in future periods through the cease use date and Bankruptcy Court approval of the rejection of the lease, which is currently scheduled for October and November 2020.

3. Global COVID-19 Pandemic

On March 11, 2020, the World Health Organization declared a global pandemic related to the rapidly growing outbreak of a novel strain of coronavirus (COVID-19). The COVID-19 pandemic has significantly impacted the economic conditions in the U.S. and globally. The Company announced the temporary closing of all stores effective March 19, 2020, along with most of its supply chain facilities; however, we continued to operate jcp.com and fulfill orders via three eCommerce fulfillment centers. Additionally, subsequent to temporarily closing all stores, the Company furloughed approximately 80,000 associates, including store and supply chain associates, as well as some corporate office associates

In late April 2020, the Company began re-opening stores with limited operating hours and staffing. The Company re-opened 11 stores in fiscal April, 464 stores in fiscal May and 366 stores in fiscal June. All open stores and facilities have implemented enhanced safety procedures and enhanced cleaning protocols to protect the health of our customers and associates. The majority of our stores continue to operate with limited hours and staffing. As of August 1, the Company has completed the closing of 7 stores and is in the process of closing 146 stores, has commenced going out of business sales in most of these stores and expects the majority of the total 153 stores to close by the end of October, with the remaining stores closing in November. As of August 31, 2020, approximately 18,000 associates remain on furlough.

The COVID-19 pandemic has, and continues to have, a material impact on the Company's business operations, financial position, liquidity, capital resources and results of operations, including the Company's filing of the Chapter 11 Cases. Because it is impossible to predict the effect and ultimate impact of the COVID-19 pandemic, or the outcome of the Chapter 11 Cases, current financial information may not be indicative of future operating results.

4. Effect of New Accounting Standards

In March 2020, the FASB issued ASU No. 2020-04, "Reference Rate Reform (Topic 848): Facilitation of Effects of Reference Rate Reform on Financial Reporting," which provides practical expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The expedients and exceptions provided by the amendments in this update apply only to contracts, hedging relationships, and other transactions that reference the London interbank offered rate ("LIBOR") or another reference rate expected to be discontinued as a result of reference rate reform. These amendments are not applicable to contract modifications made and hedging relationships entered into or evaluated after December 31, 2022. ASU No. 2020-04 is effective as of March 12, 2020, through December 31, 2022, and may be applied to contract modifications and hedging relationships from the beginning of an interim period that includes or is subsequent to March 12, 2020. We do not anticipate a material impact from the adoption of this new standard.

In December 2019, the FASB issued ASU 2019-12, Simplifying the Accounting for Income Taxes (Topic 740), which simplifies the accounting for income taxes by eliminating certain exceptions to the guidance in ASC 740 related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. The standard also simplifies aspects of the accounting for franchise taxes and enacted changes in tax laws or rates and clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill. This standard will be effective for public entities for fiscal years, and interim periods within those fiscal years,

beginning after December 15, 2020; however, early adoption is permitted. We have adopted this new standard beginning February 2, 2020, and the adoption did not have a material impact on the unaudited Interim Consolidated Financial Statements.

5. Earnings/(Loss) per Share

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

	Three Months Ended		Six Months Ended	
	August 1, 2020	August 3, 2019	August 1, 2020	August 3, 2019
<i>(In millions, except per share data)</i>				
Earnings/(loss)				
Net income/(loss)	\$ (398)	\$ (48)	\$ (944)	\$ (202)
Shares				
Weighted average common shares outstanding (basic shares)	324.6	319.4	324.2	318.6
Adjustment for assumed dilution:				
Stock options and restricted stock awards	—	—	—	—
Weighted average shares assuming dilution (diluted shares)	324.6	319.4	324.2	318.6
EPS				
Basic	\$ (1.23)	\$ (0.15)	\$ (2.91)	\$ (0.63)
Diluted	\$ (1.23)	\$ (0.15)	\$ (2.91)	\$ (0.63)

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

	Three Months Ended		Six Months Ended	
	August 1, 2020	August 3, 2019	August 1, 2020	August 3, 2019
<i>(Shares in millions)</i>				
Stock options and restricted stock awards	9.9	24.7	15.1	23.6

6. 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 six months ended August 1, 2020 and August 3, 2019:

(\$ in millions)	Three Months Ended				Six Months Ended			
	August 1, 2020		August 3, 2019		August 1, 2020		August 3, 2019	
Women's apparel	\$ 271	19 %	\$ 558	22 %	\$ 487	19 %	\$ 1,073	21 %
Men's apparel and accessories	289	21 %	537	21 %	502	20 %	1,015	21 %
Women's accessories, including Sephora	219	16 %	401	16 %	389	16 %	778	16 %
Home	172	12 %	246	10 %	317	13 %	551	11 %
Footwear and handbags	147	11 %	272	11 %	264	11 %	528	11 %
Kid's, including toys	108	8 %	216	9 %	193	8 %	416	8 %
Jewelry	90	6 %	124	5 %	165	7 %	262	5 %
Services and other	94	7 %	155	6 %	155	6 %	325	7 %
Total net sales	\$ 1,390	100 %	\$ 2,509	100 %	\$ 2,472	100 %	\$ 4,948	100 %

Credit income and other encompasses the revenue earned from the agreement with Synchro Financial (Synchro) 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. These liabilities include consideration received for gift card and loyalty related performance obligations which have not been satisfied as of a given date. The liabilities are included in other accounts payable and accrued expenses in the unaudited Interim Consolidated Balance Sheets and were as follows:

(in millions)	August 1, 2020	August 3, 2019	February 1, 2020
Gift cards	\$ 109	\$ 114	\$ 136
Loyalty rewards	62	63	58
Total contract liability	\$ 171	\$ 177	\$ 194

A rollforward of the amounts included in contract liability for the first six months of 2020 and 2019 are as follows:

(in millions)	2020	2019
Beginning balance	\$ 194	\$ 200
Current period gift cards sold and loyalty reward points earned	73	173
Net sales from amounts included in contract liability opening balances	(42)	(56)
Net sales from current period usage	(54)	(140)
Ending balance	\$ 171	\$ 177

7. Derivative Financial Instruments

We use derivative financial instruments for hedging and non-trading purposes to manage our exposure to changes in interest rates. Use of derivative financial instruments in hedging programs subjects us to certain risks, such as market and credit risks. Market risk represents the possibility that the value of the derivative instrument will change. In a hedging relationship, the change in the value of the derivative is offset to a great extent by the change in the value of the underlying hedged item. Credit risk related to derivatives represents the possibility that the counterparty will not fulfill the terms of the contract. The notional, 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) (AOCI) 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 dated May 7, 2015, 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%, matured on May 7, 2020, and were designated as cash flow hedges at the inception of the contracts. 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 were designated as cash flow hedges at the inception of the contracts.

The fair value of our interest rate swaps (see Note 8) 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. For swaps designated as cash flow hedges, the effective portion of the interest rate swaps' changes in fair values is reported in AOCI (see Note 10), and the ineffective portion is reported in net income/(loss). Amounts in AOCI are reclassified into net income/(loss) when the related interest payments affect earnings.

Quarterly, the Company evaluates the effectiveness of each hedging relationship. To continue to qualify for hedge accounting, the hedging instrument must continue to be highly effective and, for cash flow hedges, the forecasted transactions must continue to be probable of occurring. The Company's commencement of the Chapter 11 Cases (see Note 2) was deemed to be more likely than not as of May 2, 2020, the end of the Company's fiscal first quarter. Accordingly, the Company determined that it was probable that the forecasted transactions would not occur and, therefore, the hedges were no longer effective. As a result, during first quarter of 2020, the Company recorded a charge of \$77 million for discontinuance of hedge accounting, which included \$58 million reclassified from AOCI.

On May 7, 2020, the Company did not make a scheduled interest payment on the aforementioned swap agreements and the agreements were cancelled. As of May 7, 2020, the fair value of the interest swaps was \$77 million. The interest rate swaps liability is secured by the collateral of the 2017 Credit Facility (see Note 9) and is not subject to compromise. The interest rate swaps are no longer subject to fair value changes after May 7, 2020.

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

(\$ in millions)	Asset Derivatives at Fair Value				Liability Derivatives at Fair Value			
	Balance Sheet Location	August 1, 2020 ⁽¹⁾	August 3, 2019 ⁽¹⁾	February 1, 2020 ⁽¹⁾	Balance Sheet Location	August 1, 2020 ⁽¹⁾	August 3, 2019 ⁽¹⁾	February 1, 2020 ⁽¹⁾
Interest rate swaps	Prepaid expenses and other	\$ —	\$ 1	\$ —	Other accounts payable and accrued expenses	\$ 77	\$ —	\$ —
Interest rate swaps	Other assets	—	—	—	Other liabilities	—	48	58
Total derivatives		\$ —	\$ 1	\$ —		\$ 77	\$ 48	\$ 58

⁽¹⁾ Derivatives as of August 1, 2020, were not designated as hedging instruments; derivatives as of August 3, 2019, and February 1, 2020, were designated as hedging instruments.

8. 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.

Interest Rate Swaps Measured on a Recurring Basis

The fair value of our interest rate swap agreements, prior to their cancellation, was 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

As further discussed in Note 13, during second quarter of 2020, long-lived assets held and used with carrying value of \$68 million were written down to their fair value of \$42 million, and right-of-use assets with carrying value of \$12 million were written down to a fair value of \$10 million, resulting in asset impairment charges of \$26 million and \$2 million, respectively, totaling \$28 million. During first quarter of 2020, long-lived assets held and used with a carrying value of \$162 million were written down to their fair value of \$113 million, and right-of-use lease assets with a carrying value of \$140 million were written down to a fair value of \$92 million, resulting in asset impairment charges of \$49 million and \$48 million, respectively, totaling \$97 million. The fair value was determined based on a discounted cash flow approach. The significant inputs and assumptions used in the discounted cash flow approach included estimated market rentals for the related leases and a real estate-based discount rate and are classified as Level 3 in the fair value measurement hierarchy.

Also, as a result of the Company's plans to reduce its store footprint during bankruptcy, during first quarter of 2020, indefinite-lived intangible assets with a carrying value of \$275 million were written down to their fair value of \$233 million, resulting in an asset impairment of \$42 million. We evaluated the recoverability of our indefinite-lived intangible assets utilizing the relief from royalty method to determine the estimated fair value. The relief from royalty method estimates our theoretical royalty savings from ownership of the intangible assets. Key assumptions in determining relief from royalty include, among other things, discount rates, royalty rates, growth rates, sales projections and terminal value rates. The Company applied a weighted-average approach, which considered multiple scenarios with varying sales projections to estimate fair value. The fair value determined utilizing the relief from royalty method and the significant inputs related to valuing the intangible assets are classified as Level 3 in the fair value measurement hierarchy.

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 \$2 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 3 in the fair value measurement hierarchy.

Other Financial Instruments

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

	August 1, 2020		August 3, 2019		February 1, 2020	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
(\$ in millions)						
Total debt, excluding unamortized debt issuance costs	\$ 5,393	\$ 2,721	\$ 3,829	\$ 2,373	\$ 3,758	\$ 2,464

The fair value of total debt was estimated by obtaining quotes from brokers or was based on current rates offered for similar debt. As of August 1, 2020, August 3, 2019, and February 1, 2020, the fair values of cash, cash equivalents and restricted cash, accounts payable, the DIP Credit Agreement and the 2017 Credit Facility 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.

9. Debt and Debt Subject to Compromise

<i>(\$ in millions)</i>	August 1, 2020	August 3, 2019	February 1, 2020
DIP Credit Agreement due November 2020	\$ 900	\$ —	\$ —
Pre-petition debt - classified as a current liability			
2017 Credit Facility (Matures 2022)	1,204	—	—
Pre-petition debt subject to compromise ⁽¹⁾			
8.125% Senior Notes Due 2019	—	50	—
5.65% Senior Notes Due 2020	105	105	105
2016 Term Loan Facility (Matures in 2023)	1,102	1,561	1,540
5.875% Senior Secured Notes Due 2023	469	500	500
7.125% Debentures Due 2023	10	10	10
8.625% Senior Secured Second Priority Notes Due 2025	400	400	400
6.9% Notes Due 2026	2	2	2
6.375% Senior Notes Due 2036	388	388	388
7.4% Debentures Due 2037	313	313	313
7.625% Notes Due 2097	500	500	500
Total debt subject to compromise	3,289	—	—
Total debt	\$ 5,393	3,829	3,758
Less: unamortized debt issuance costs		(43)	(37)
Less: current portion		(197)	(147)
Total long-term debt		\$ 3,589	\$ 3,574

⁽¹⁾ Liabilities subject to compromise must be reported at the amounts expected to be allowed claims by the Bankruptcy Court. The carrying value of the debt will be adjusted as claims are approved. As of August 1, 2020, we have written off unamortized debt issuance costs of \$33 million to present the debt at the face value outstanding. The expense related to this write off is recorded within Reorganization items, net in the unaudited interim Consolidated Statement of Operations.

The commencement of the Chapter 11 Cases constitutes an event of default or termination event under all pre-petition debt of the Company. With the exception of the 2017 Credit Facility, all pre-petition debt is classified as liabilities subject to compromise. As a result of the default under the agreements comprising the 2017 Credit Facility agreements, the Company has classified the 2017 Credit Facility as a current liability. Any efforts to enforce payment obligations related to the Company's outstanding debt have been automatically stayed as a result of the filing of the Chapter 11 Cases, and the creditors' rights of enforcement are subject to the applicable provisions of the Bankruptcy Code.

Effective as of the Petition Date, the Company ceased recording interest expense on all debt subject to compromise, with the exception of the 2016 Term Loan Facility and the Senior Secured Notes. On June 5, 2020, and July 20, 2020, the Bankruptcy Court issued orders allowing the Debtors to make adequate protection payments for the 2017 Credit Facility, the 2016 Term Loan Facility and the Senior Secured Notes. The adequate protection payments represent interest otherwise due under the terms of those debt agreements and the Company continues to accrue and expense that interest. Contractual interest expense represents amounts due under the contractual terms of outstanding pre-petition debt subject to compromise and not otherwise paid under adequate payments. For the second quarter 2020, contractual interest expense of \$26 million has not been recorded in the financial statements.

Debtor-in-Possession Financing

Pursuant to the RSA, certain of the Consenting Stakeholders and/or their affiliates agreed to provide, on a committed basis, debtor-in-possession financing on the terms set forth therein. Following entry by the Bankruptcy Court of a final order on June 5, 2020, JCP, as borrower, and J. C. Penney and certain of its subsidiaries, as guarantors (together with JCP, the "Credit Parties"), entered into a Superpriority Senior Secured Debtor-In-Possession Credit and Guaranty Agreement (the "DIP Credit Agreement") with the financial institutions identified therein as lenders (the "Lenders"), GLAS USA LLC, as administrative agent (the "Administrative Agent"), and GLAS Americas LLC, as collateral agent. The obligations under the DIP Credit Agreement are secured by substantially all of the real and personal property of the Credit Parties, subject to certain exceptions.

The DIP Credit Agreement provides for a superpriority secured debtor-in-possession credit facility comprised of term loans in an aggregate amount of up to \$900 million of which (i) up to \$450 million consists of “new money” loans that will be made available to JCP \$25 million of which was provided to JCP on June 8, 2020, and \$225 million was funded to an escrow account on July 9, 2020), and (ii) up to \$450 million consists of certain pre-petition term loan and/or first lien notes obligations that are “rolled” into the DIP Credit Agreement \$225 million of which were rolled into the DIP Facility on June 8, 2020, and \$225 million of which were rolled into the DIP Credit Agreement on July 9, 2020). Of the total \$450 million of pre-petition debt rolled into the DIP Credit Agreement, \$419 million of the 2016 Term Loan and \$31 million of the Senior Secured Notes were rolled into the DIP Credit Agreement. The pre-petition debt rolled into the DIP Credit Agreement was accounted for as a debt modification. Fees of \$50 million, consisting of \$45 million paid to the lenders and \$5 million paid to the Company’s advisors, were paid in connection with the signing of the DIP Credit Agreement, were all expensed during the second quarter of 2020 and are included in Reorganization items, net in the unaudited interim Consolidated Statement of Operations.

The DIP Credit Agreement matures on November 16, 2020, subject to earlier termination upon the occurrence of certain events specified in the DIP Credit Agreement. The proceeds of the DIP Credit Agreement will be used, in part, to provide incremental liquidity for working capital, to pay administrative costs, premiums, fees and expenses in connection with the DIP Credit Agreement and the administration of the Chapter 11 Cases, to make court approved payments in respect of pre-petition obligations and for other purposes consistent with the DIP Credit Agreement.

Loans under the DIP Credit Agreement bear interest at (i) if a Base Rate Loan, at the Base Rate (which is subject to a floor of 2.25%) plus 10.75% per annum or (ii) if a Eurodollar Rate Loan, at the Adjusted Eurodollar Rate (which is subject to a floor of 1.25%) plus 11.75% per annum. As of August 1, 2020, the interest rate on the DIP Credit Agreement was 13%. In addition, a 3% repayment fee due to the DIP lenders upon repayment of the DIP Credit Agreement will be accreted as interest expense over the DIP Credit Agreement term.

The DIP Credit Agreement includes customary negative covenants for debtor-in-possession loan agreements of this type, including covenants limiting the Credit Parties’ and their subsidiaries’ ability to, among other things, incur additional indebtedness, create liens on assets, make investments, loans or advances, engage in mergers, consolidations, sales of assets and acquisitions, pay dividends and distributions and make payments in respect of junior or pre-petition indebtedness, in each case subject to customary exceptions for debtor-in-possession loan agreements of this type. The DIP Credit Agreement also includes conditions precedent, representations and warranties, mandatory prepayments, affirmative covenants and events of default customary for financings of this type. Certain bankruptcy-related events are also events of default, including, but not limited to, the dismissal by the Bankruptcy Court of any of the Chapter 11 Cases, the conversion of any of the Chapter 11 Cases to a case under chapter 7 of title 11 of the United States Code, the appointment of a trustee pursuant to chapter 11 of title 11 of the United States Code, and certain other events related to the impairment of the Lenders’ rights or liens granted under the DIP Credit Agreement.

As previously reported, the Supermajority Lenders agreed to extend certain milestones under the DIP Credit Agreement to enable the Company and the Supermajority Lenders to continue discussions, including with respect to negotiating the sale to a third-party of all or substantially all of the assets of the Credit Parties comprising the operating company, pursuant to section 363 of the Bankruptcy Code. On September 10, 2020, the Company entered into a non-binding letter-of-intent (“LOI”) with the Ad Hoc Group, Simon Property Group and Brookfield Property Group that is generally consistent with the framework of the restructuring process contemplated in the RSA. Because the LOI is non-binding, and subject to definitive documentation that must be agreed upon by all parties and subsequently approved by the Bankruptcy Court, there is no assurance that the existing LOI will ultimately result in a final, approved sale or plan of reorganization.

Pre-Petition Debt

As of August 1, 2020, there was \$1,204 million in outstanding borrowings under the Company’s pre-petition senior secured asset-based revolving credit facility (the 2017 Credit Facility). Borrowings under the 2017 Credit Facility bear interest, at the Company’s option, at a base rate or LIBOR, plus an applicable interest rate margin varying depending on the Company’s utilization of the 2017 Credit Facility. The interest rate on the borrowings as of August 1, 2020, was 6.50%. The proceeds from the 2017 Credit Facility may be used for working capital needs or general corporate purposes. The Company’s option to elect which rate applies to the amounts outstanding under the 2017 Credit Facility requires the Company to designate each borrowing as either a base rate or LIBOR borrowing. The designation may be changed subsequent to the initial borrowing and are presented as proceeds and payments which offset in the unaudited interim Consolidated Statement of Cash Flows. During the first half of 2020, approximately \$1.4 billion changed designation, which has zero net impact on the amounts that are outstanding under the 2017 Credit Facility. Following the commencement of the Chapter 11 Cases, we do not have access to additional cash borrowings under the revolving credit facility.

In April 2020, the Company did not make its scheduled payment of interest related to the 6.375% Senior Secured Notes Due 2036 and did not cure that default prior to commencement of the Chapter 11 Cases. During the period of the Chapter 11 Cases, the Company will make adequate protection payments, consisting of non-default interest and fees, in respect of the obligations under the outstanding 2016 Term Loan Facility and the Senior Secured Notes Due 2023. In respect of obligations under the 2017 Credit Facility, an additional 2% in default interest will be included in the adequate protection payments. All other interest payments on pre-petition outstanding debt have been suspended. Amounts incurred for adequate protection payments, representing interest on the 2017 Credit Facility, the 2016 Term Loan Facility, and the Senior Secured Notes, totaled \$38 million for the second quarter of 2020. As noted above as provided for in the DIP Credit Agreement, \$419 million of the 2016 Term Loan and \$31 million of the Senior Secured Notes were rolled into the DIP Credit Agreement.

10. Accumulated Other Comprehensive Income/(Loss)

The following tables show the changes in accumulated other comprehensive income/(loss) balances for the six months ended August 1, 2020, and August 3, 2019:

<i>(In millions)</i>	Net Actuarial Gain/(Loss)	Prior Service Credit/(Cost)	Foreign Currency Translation	Gain/(Loss) on Cash Flow Hedges	Accumulated Other Comprehensive Income/(Loss)
February 1, 2020	\$ (310)	\$ (12)	\$ (1)	\$ (64)	\$ (387)
Discontinuance of hedge accounting ⁽¹⁾	—	—	—	64	64
Other comprehensive income/(loss) before reclassifications	(41)	4	—	—	(37)
Amounts reclassified from accumulated other comprehensive income/(loss)	—	3	(1)	—	2
August 1, 2020	<u>\$ (351)</u>	<u>\$ (5)</u>	<u>\$ (2)</u>	<u>\$ —</u>	<u>\$ (358)</u>

⁽¹⁾ Includes a \$58 million charge reclassified to earnings and included in Discontinuance of hedge accounting and a \$6 million charge reclassified to Income tax expense, both recorded during the first quarter of 2020.

<i>(In millions)</i>	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	46	3	—	4	53
Other comprehensive income/(loss) before reclassifications	—	—	—	(39)	(39)
Amounts reclassified from accumulated other comprehensive income/(loss)	—	4	—	(4)	—
August 3, 2019	<u>\$ (244)</u>	<u>\$ (15)</u>	<u>\$ (1)</u>	<u>\$ (54)</u>	<u>\$ (314)</u>

11. Leases

ASC 842 Leases, requires the remeasurement of the lease term upon the occurrence of a significant event or a change in circumstances that is within the control of the lessee that directly affects whether the lessee is reasonably certain to exercise or not to exercise an option to extend or terminate a lease. Following the filing of the Chapter 11 Cases on May 15, 2020, the Company remeasured certain leases based on a change in their reasonably certain lease term. The weighted average discount rate used for remeasuring the leases was 22.3%. As a result of the remeasurements, the Company reduced its operating lease assets by \$95 million and its operating lease liabilities by \$115 million, recording a gain of \$20 million, which is included in Restructuring and management transition, net (see Note 13) in the unaudited interim Consolidated Statement of Operations.

During the second quarter of 2020, the Bankruptcy Court approved the rejection of certain leases that were primarily related to leases associated with stores closed prior to the commencement of the Chapter 11 Cases. In connection with the rejection of these leases, the Company reduced its operating lease assets by \$46 million and its operating lease liabilities by \$112 million, recording a gain of \$66 million, which is included in Reorganization items, net (see Note 2) in the unaudited interim Consolidated Statement of Operations.

Additionally, in connection with scheduled store closures, during the second quarter, the Company accelerated the amortization of store operating lease assets of \$ 1 million, which was recorded to SG&A expenses in the unaudited interim Consolidated Statement of Operations.

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:

(\$ in millions)	Three Months Ended		Six Months Ended	
	August 1, 2020	August 3, 2019	August 1, 2020	August 3, 2019
Service cost	\$ 8	\$ 7	\$ 16	\$ 14
Other components of net periodic pension cost/(income):				
Interest cost	26	33	52	66
Expected return on plan assets	(51)	(48)	(101)	(96)
Amortization of prior service cost	2	2	3	4
Amortization of net loss	1	—	1	—
Curtailed loss recognized	5	—	5	—
Special termination benefit cost recognized	94	—	94	—
	77	(13)	54	(26)
Net periodic pension expense/(income)	\$ 85	\$ (6)	\$ 70	\$ (12)

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

Primary Pension Plan Lump-Sum Payment Offer and VERP

In April 2020, the Company initiated a Voluntary Early Retirement Program (VERP) for approximately 4,300 eligible associates. Eligibility for the VERP included home office, stores and supply chain personnel who met certain criteria related to age and years of service as of October 23, 2019. The consideration period for eligible associates to accept the VERP ended on May 29, 2020. Based on the approximately 2,600 associates who elected to accept the VERP, we incurred a total charge of \$94 million for enhanced retirement benefits. The enhanced retirement benefits increased the projected benefit obligation (PBO) of the Primary Pension Plan and the Supplemental Pension Plans by \$85 million and \$9 million, respectively. In addition, we incurred curtailment charges of \$4 million related to our Primary Pension Plan and \$1 million related to Supplemental Pension Plans as a result of the reduction in the expected years of future service related to these plans. As a result of these curtailments, the assets and the liabilities for our Primary Pension Plan and the liabilities of certain Supplemental Pension Plans were remeasured as of July 31, 2020. The discount rate used for the remeasurements was 2.64% compared to the fiscal year 2019 discount rate of 3.08%. The remeasurement and curtailment resulted in the PBO of our Primary Pension Plan increasing by \$17 million and the related assets increasing by \$74 million, and the PBO of our Supplemental Pension Plans decreasing by \$0.4 million. As of July 31, 2020, the funded status of the Primary Pension Plan was 101% and is not impacted by the Chapter 11 Cases.

Other Unfunded Benefit Plans

The Company also sponsors other supplemental retirement plans, primarily the Supplemental Retirement Program, the Benefit Restoration Plan and the Mirror Savings Plan, that were unfunded as of the Petition Date. Liabilities for those plans total \$165 million and have been classified as Liabilities subject to compromise in the unaudited interim Consolidated Balance Sheets.

13. Restructuring and Management Transition, Net

During the second quarter of 2020, the Company accrued severance costs related to store associates at announced closing stores and a reduction in workforce for home office, field management and international associates. Severance costs for the approximately 7,700 associates impacted totaled \$28 million.

In connection with the anticipated commencement of the Chapter 11 Cases, the Company identified in the first quarter of 2020 certain leased stores it considered more likely than not would be permanently closed significantly before the end of their respective estimated useful lives. During the second quarter of 2020, the stores identified for permanent closure continued to evolve through the Chapter 11 Cases. The potential closing of stores is considered an indicator of impairment in accordance with ASC 360 *Property, Plant and Equipment*; accordingly, long-lived assets, including right-of-use lease assets, with indicators of impairment, are evaluated for recoverability. Assets that are not determined to be recoverable are assessed for impairment based on their current fair values. As a result of test for impairment during both first quarter 2020 and second quarter 2020, the Company recorded impairment charges of \$97 million during first quarter of 2020, consisting of \$49 million related to long-lived assets and \$48 million related to right-of-use lease assets and the Company recorded impairment charges of \$28 million during second quarter of 2020, consisting of \$26 million related to long-lived assets and \$2 million related to right-of-use lease assets.

In connection with store and other facility closures, during the second quarter of 2020, the Company wrote-off certain supply chain and field office lease related long-lived assets resulting in a charge of \$16 million.

Similarly, during first quarter 2020, the Company determined that the combination of the macro economic impact of the COVID-19 pandemic, the contemplation of bankruptcy, and the expectations of permanent store closures represented an indicator of impairment related to the Company's indefinite-lived intangible assets primarily associated with the Liz Claiborne family of trademarks and related intellectual property. As a result, the Company recorded an impairment of the intangible assets of \$42 million during first quarter of 2020.

The Company also incurred expenses related to pre-petition debt restructuring advisory fees in the amount of \$6 million and \$8 million in the first and second quarters of 2020, respectively. The Company also recognized a gain of \$20 million related to the remeasurement of certain operating lease assets and liabilities (see Note 11).

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 impairments, employee termination benefits, store lease terminations and other restructuring/reorganization 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 costs related to the closure of certain supply chain locations.

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

(\$ in millions)	Three Months Ended		Six Months Ended		Cumulative Amount From Program Inception Through August 1, 2020
	August 1, 2020	August 3, 2019	August 1, 2020	August 3, 2019	
Home office and stores	\$ 67	\$ 4	\$ 222	\$ 23	\$ 751
Management transition	—	3	—	4	269
Other	—	—	—	—	186
Total	\$ 67	\$ 7	\$ 222	\$ 27	\$ 1,206

Activity for the restructuring and management transition liability for the six months ended August 1, 2020 was as follows:

<i>(\$ in millions)</i>	Home Office and Stores	Management Transition	Total
February 1, 2020	\$ 6	\$ 2	\$ 8
Charges	59	—	59
Cash payments	(34)	(1)	(35)
Move to liabilities subject to compromise	(2)	—	(2)
August 1, 2020	<u>\$ 29</u>	<u>\$ 1</u>	<u>\$ 30</u>

14. Income Taxes

On March 27, 2020, the U.S. federal government passed the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"). The CARES Act contains many tax provisions including, but not limited to, accelerated alternative minimum tax ("AMT") refunds, payroll tax payment deferrals, employee retention credits, enhanced net operating loss ("NOL") carryback rules and an increase to the interest deduction limitation. The Company has considered the income tax provisions of the CARES Act in the tax benefit calculation for the six months ended August 1, 2020. The Company continues to monitor and analyze the CARES Act along with global legislation issued in response to the COVID-19 pandemic.

The net tax benefit of \$7 million for the three months ended August 1, 2020, consisted of federal, state and foreign tax expense 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 \$9 million benefit due to the release of valuation allowance.

The net tax benefit of \$67 million for the six months ended August 1, 2020, consisted of federal, state and foreign tax benefit of \$1 million, \$2 million of expense related to the deferred tax asset change arising from the tax amortization of indefinite-lived intangible assets, net tax benefit of \$3 million resulting from statutory audit settlements and a \$65 million benefit from the release of valuation allowance, primarily due to the generation of post-tax reform NOLs that do not expire.

As of August 1, 2020, we have approximately \$2.5 billion of NOLs available for U.S. federal income tax purposes, which largely expire in 2032 through 2034, though about \$383 million of the NOLs do not expire; \$389 million of federal unused interest deductions that do not expire; and \$76 million of tax credit carryforwards that expire at various dates through 2039. Additionally, we have state NOLs that are subject to various limitations and expiration dates beginning in 2020 through 2041 and are offset fully by valuation allowances. A valuation allowance of \$786 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 2039. A valuation allowance of \$268 million fully offsets the deferred tax assets resulting from the state NOL carryforwards that expire at various dates through 2041. 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 August 1, 2020, the valuation allowance net increase of \$112 million consisted of net deferred tax assets created in the quarter primarily due to the increase in NOL carryforwards. Our ability to use our NOLs may become subject to limitation or may be reduced or eliminated in connection with the Chapter 11 Cases.

15. Litigation and Other Contingencies

Litigation

Chapter 11 Proceedings

On May 15, 2020, the Debtors filed the Chapter 11 Cases seeking relief under the Bankruptcy Code. The Company expects to continue operations in the normal course for the duration of the Chapter 11 Cases. In addition, subject to certain exceptions under the Bankruptcy Code, the filing of the Debtors' Chapter 11 Cases also automatically stayed the filing of most legal proceedings and other actions against or on behalf of the Debtors or their property to recover on, collect or secure a claim arising prior to the Petition Date or to exercise control over property of the Debtors' bankruptcy estates, unless and until the Bankruptcy Court modifies or lifts the automatic stay as to any such claim. See Note 2 for more information about the Chapter 11 Cases.

Legal Proceedings

We are subject to various 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 unaudited Interim Consolidated Financial Statements. These estimates were developed in consultation with in-house and outside counsel. While no assurance can be given as to the ultimate outcome of these matters, we currently believe that the final resolution of these actions, individually or in the aggregate, will not have a material adverse effect on our results of operations, financial position, liquidity or capital resources.

Contingencies

As of August 1, 2020, we have an estimated accrual of \$20 million related to potential environmental liabilities that is recorded in Other accounts payable and accrued expenses and Other liabilities in the unaudited Interim Consolidated Balance Sheet. This estimate covered potential liabilities primarily related to underground storage tanks 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 1, 2020, and for the year then ended, 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 ended February 1, 2020 (2019 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.

Business Update

During March 2020, the World Health Organization declared a global pandemic related to the rapidly growing outbreak of a novel strain of coronavirus (COVID-19), which continues to spread throughout the United States. In response to the COVID-19 pandemic, federal state and local governments in the U.S. reacted to the public health crisis by, among other things, issuing stay at home orders, implementing travel restrictions and mandating the closure of non-essential businesses. As a result, the Company closed all of its stores beginning March 19, 2020, and furloughed approximately 80,000 associates. Although a majority of these restrictions have been lifted in various states, regions and municipalities throughout the U.S., the COVID-19 pandemic continues to have a material impact on the Company’s business operations, financial position, liquidity, capital resources and results of operations. The scope and duration of the COVID-19 pandemic and the related disruption to our business and financial impacts cannot be reasonably estimated at this time.

In late April 2020, the Company began reopening stores and by the end of the second quarter of 2020, most stores had been reopened with limited operating hours and staffing levels. Additionally, the Company has completed the closure of 7 stores and is in the process of closing 149 stores, including 3 stores approved by the Bankruptcy Court on September 1, 2020. The Company has commenced closing sales in the majority of these locations and expects the majority of the 153 stores to close by the end of October 2020, with the remaining stores closing in November 2020. As of August 31, 2020, approximately 18,000 associates remain on furlough.

On May 15, 2020 (the Petition Date), as described in Note 2 to the unaudited Interim Consolidated Financial Statements, the Company and certain of its subsidiaries (the Debtors) commenced voluntary cases under Chapter 11 of the Bankruptcy Code. The Bankruptcy Court has granted a motion seeking joint administration of the Chapter 11 Cases. The Debtors continue to operate their businesses as “debtors-in-possession” under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provision of the Bankruptcy Code and the orders of the Bankruptcy Court. Following the Petition Date, the Bankruptcy Court entered certain interim and final orders facilitating the Debtors’ operational transition into Chapter 11. These orders authorized the Debtors to, among other things, access cash collateral, pay employee wages and benefits, honor customer programs and pay vendors and suppliers in the ordinary course for all goods and services provided after the Petition Date.

The Company and its lenders are engaged in continuing discussions regarding the restructuring process, including with respect to negotiating the sale to a third-party of all or substantially all of the assets of the Debtors comprising the operating company, pursuant to section 363 of the Bankruptcy Code. On September 10, 2020, the Company entered into a non-binding letter-of-intent (“LOI”) with certain lenders, Simon Property Group and Brookfield Property Group that is generally consistent with the

framework of the restructuring process contemplated in the restructuring support agreement among the Debtors and certain lenders (see Note 2 to the unaudited interim Consolidated Financial Statements). Because the LOI is non-binding, and subject to definitive documentation that must be agreed upon by all parties and subsequently approved by the Bankruptcy Court, there is no assurance that the existing LOI will ultimately result in a final, approved sale or plan of reorganization.

As discussed in Note 1 to the unaudited interim Consolidated Financial Statements, the risks and uncertainties surrounding the COVID-19 pandemic and the Chapter 11 Cases, the defaults under our debt agreements, and our current financial condition, raise substantial doubt as to the Company's ability to continue as a going concern. Future plans, including those in connection with the Chapter 11 Cases, are not yet finalized, fully executed or approved by the Bankruptcy Court, and therefore cannot be deemed probable of mitigating this substantial doubt within 12 months of the date of issuance of these financial statements. As a result of these risks and uncertainties, the amount and composition of our assets, liabilities, officers and/or directors could be significantly different following the outcome of the Chapter 11 Cases, and the description of our operations, properties, liquidity and capital resources included in this quarterly report may not accurately reflect our operations, properties, liquidity and capital resources following the Chapter 11 Cases.

Plan for Renewal

On November 15, 2019, the Company announced its Plan for Renewal to return JCPenney to its rightful place in the retail industry. Coupled with our deep understanding of the customer, these five components of our Plan for Renewal guide everything we do:

- **Offer Compelling Merchandise** through a maximized value proposition;
- **Drive Traffic** by refreshing and increasing the relevance of the JCPenney brand through innovation;
- **Deliver an Engaging Experience** through operational excellence;
- **Fuel Growth** by optimizing our cost and capital structure; and,
- **Build a Results-Minded Culture** committed and connected to achievements larger than the individual.

The Company remains focused on its Plan for Renewal as we continue to believe it will drive a return to sustainable, profitable growth and a financially sound business for the long term. We are making thoughtful strategic choices to guide our transformation, and we will continue to evolve those choices as the macro conditions change. While the Company is managing through the challenges of the COVID-19 pandemic, as well as the process of navigating the Chapter 11 Cases, our planned emergence from the COVID-19 pandemic and the Chapter 11 Cases is built upon the components of, and we remain focused on executing, our Plan for Renewal.

Results of Operations

	Three Months Ended		Six Months Ended	
	August 1, 2020	August 3, 2019	August 1, 2020	August 3, 2019
<i>(\$ in millions, except EPS)</i>				
Total net sales	\$ 1,390	\$ 2,509	\$ 2,472	\$ 4,948
Credit income and other	69	110	183	226
Total revenues	1,459	2,619	2,655	5,174
Total net sales increase/(decrease) from prior year	(44.6)%	(9.2)%	(50.0)%	(7.4)%
Costs and expenses/(income):				
Cost of goods sold (exclusive of depreciation and amortization shown separately below)	919	1,585	1,732	3,215
Selling, general and administrative	470	870	1,042	1,726
Depreciation and amortization	161	137	296	284
Real estate and other, net	(5)	3	(7)	(2)
Restructuring and management transition	67	7	222	27
Total costs and expenses	1,612	2,602	3,285	5,250
Operating income/(loss)	(153)	17	(630)	(76)
Other components of net periodic pension cost/(income)	77	(13)	54	(26)
(Gain)/loss on extinguishment of debt	—	(1)	—	(1)
Net interest expense	67	74	142	147
Loss due to discontinuance of hedge accounting	—	—	77	—
Reorganization items, net	108	—	108	—
Income/(loss) before income taxes	(405)	(43)	(1,011)	(196)
Income tax expense/(benefit)	(7)	5	(67)	6
Net income/(loss)	\$ (398)	\$ (48)	\$ (944)	\$ (202)
Adjusted EBITDA (non-GAAP) ⁽¹⁾	\$ 75	\$ 160	\$ (112)	\$ 234
Adjusted net income/(loss) (non-GAAP) ⁽¹⁾	\$ (146)	\$ (56)	\$ (477)	\$ (203)
Diluted EPS	\$ (1.23)	\$ (0.15)	\$ (2.91)	\$ (0.63)
Adjusted diluted EPS (non-GAAP) ⁽¹⁾	\$ (0.45)	\$ (0.18)	\$ (1.47)	\$ (0.64)
Ratios as a percentage of total net sales:				
Cost of goods sold	66.1 %	63.2 %	70.1 %	65.0 %
SG&A	33.8 %	34.7 %	42.2 %	34.9 %
Operating income/(loss)	(11.0)%	0.7 %	(25.5)%	(1.5)%

⁽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.

Total Net Sales

(\$ in millions)	Three Months Ended		Six Months Ended	
	August 1, 2020	August 3, 2019	August 1, 2020	August 3, 2019
Total net sales	\$ 1,390	\$ 2,509	\$ 2,472	\$ 4,948
Sales percent increase/(decrease):				
Total net sales	(44.6)%	(9.2)%	(50.0)%	(7.4)%

Total net sales for the second quarter of 2020 declined 44.6% compared to the second quarter of fiscal 2019. Total net sales for the first half of 2020 declined 50.0% compared to the first half of fiscal 2019. The decrease in net sales was primarily due to the temporary closure of all our stores in response to the COVID-19 pandemic beginning on March 19, 2020. A significant number of stores reopened in May and June with the most stores open during July with limited operating hours and staffing.

Given we temporarily closed all of our stores effective March 19, 2020 and the majority were not reopened until the end of June 2020, we are not presenting, or including a discussion on, comparable store sales for the three and six months ended August 1, 2020. We believe the conditions and continued impact resulting from the COVID-19 pandemic leading up to and following both the temporary closure and reopening of our stores do not accurately reflect the comparable store sales trends for the period or are indicative of future operating results.

Store Count

The following table compares the number of stores for the three and six months ended August 1, 2020, and August 3, 2019

	Three Months Ended		Six Months Ended	
	August 1, 2020	August 3, 2019	August 1, 2020	August 3, 2019
JCPenney department stores				
Beginning of period	846	861	846	864
New stores opened	—	—	—	—
Permanently closed stores	(7)	(15)	(7)	(18)
End of period ^{(1) (2)}	839	846	839	846

⁽¹⁾ Gross selling space, including selling space allocated to services and licensed departments, was 93 million square feet as of August 1, 2020, and 93 million square feet as of August 3, 2019.

⁽²⁾ All stores were temporarily closed beginning March 19, 2020, and most stores had reopened by the end of the second quarter of 2020 with limited operating hours and staffing levels.

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 second quarters of 2020 and 2019, we recognized income of \$69 million and \$110 million, respectively, pursuant to our agreement with Synchrony. For the first half of 2020 and 2019, we recognized income of \$183 million and \$226 million, respectively. Credit income declined in the first half of 2020 compared to the same period of 2019 primarily due to a \$41 million decline in second quarter 2020, corresponding to the decline in sales and lower net profit sharing due to the COVID-19 pandemic.

Cost of Goods Sold

Cost of goods sold, exclusive of depreciation and amortization, for the three months ended August 1, 2020, was \$919 million, a decrease of \$666 million compared to \$1,585 million for the three months ended August 3, 2019. Cost of goods sold as a percentage of total net sales was 66.1% for the three months ended August 1, 2020, compared to 63.2% for the three months ended August 3, 2019, an increase of 290 basis points. Cost of goods sold for the six months ended August 1, 2020, was \$1,732 million, a decrease of \$1,483 million compared to \$3,215 million for the six months ended August 3, 2019. Cost of goods sold

as a percentage of total net sales was 70.1% for the six months ended August 1, 2020, compared to 65.0% for the six months ended August 3, 2019, an increase of 510 basis points. The increases in cost of goods sold as a percentage of net sales were due to lower allowances from suppliers during each period and increased markdowns in the second quarter 2020, primarily markdowns related to going out of business sales in our closing stores.

SG&A Expenses

For the three months ended August 1, 2020, SG&A expenses were \$470 million compared to \$870 million in the corresponding period of 2019. SG&A expenses as a percentage of total net sales for the second quarter of 2020 decreased to 33.8% compared to 34.7% in the second quarter of 2019. For the six months ended August 1, 2020, SG&A expenses were \$1,042 million compared to \$1,726 million in the corresponding period of 2019. SG&A expenses as a percentage of total net sales for the first half of 2020 increased to 42.2% compared to 34.9% in the first half of 2019.

The year-over-year decreases in SG&A dollars for the three months and six months ended August 1, 2020, resulted primarily from the actions taken by the Company to reduce expenses to mitigate the impact of sales losses due to the temporary store closures. Year-over-year savings for the three and six month periods of 2020 include payroll, payroll related and incentive compensation savings of approximately \$274 million and \$460 million, respectively, primarily due to associate furloughs and reduced staffing levels in reopened stores. Additional year-over-year savings include approximately \$100 million and \$183 million from reduced advertising and store operating expenses, for the three and six month periods of 2020, respectively. During the second quarter of 2020, SG&A expenses included approximately \$11 million of accelerated amortization of lease assets related to closing stores.

Depreciation and Amortization Expense

Depreciation and amortization expense was \$161 million and \$137 million for the three months ended August 1, 2020 and August 3, 2019, respectively. Depreciation and amortization increased \$24 million in 2020 from 2019 due to accelerated depreciation of fixed assets and leasehold improvements of approximately \$28 million associated with the 153 closing stores previously noted.

Depreciation and amortization expense was \$296 million and \$284 million for the six months ended August 1, 2020 and August 3, 2019, respectively.

Restructuring and Management Transition

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

	Three Months Ended		Six Months Ended	
	August 1, 2020	August 3, 2019	August 1, 2020	August 3, 2019
(\$ in millions)				
Home office and stores	\$ 67	\$ 4	\$ 222	\$ 23
Management transition	—	3	—	4
Total	\$ 67	\$ 7	\$ 222	\$ 27

During the three and six months ended August 1, 2020, we recorded \$67 million and \$222 million, respectively, of costs related to our store and home office expenses. Costs during the first half of 2020 include an impairment of long-lived assets and operating lease assets of \$125 million, an impairment of indefinite-lived intangible assets of \$42 million, charges of \$16 million for the write off of certain long-lived assets related to store and other facility closings, and severance costs of \$28 million related to announced store closings and a reduction in workforce for home office, field management and international associates. The Company also incurred \$24 million of expenses related to pre-petition debt restructuring advisory fees in the first half of 2020. See Notes 8 and 13 to the unaudited interim Consolidated Financial Statements.

Costs during the six months ended August 3, 2019 include store impairments related to announced store closures of \$14 million and accelerated depreciation of \$2 million, employee termination benefits of \$4 million and store related closing costs of \$3 million.

Operating Income/(Loss)

For the second quarter of 2020, we reported an operating loss of \$153 million compared to operating income of \$17 million in the second quarter of 2019.

For the first half of 2020, we reported an operating loss of \$630 million compared to an operating loss of \$76 million in the first half of 2019.

Other Components of Net Periodic Pension Cost/(Income)

Other components of net periodic pension cost/(income) was \$77 million and \$(13) million for the three months ended August 1, 2020, and August 3, 2019, respectively and \$54 million and \$(26) million for the six months ended August 1, 2020, and August 3, 2019, respectively. During second quarter 2020, the Company recorded a \$94 million charge to Other components of net periodic pension cost/(income) relate to the VERP. See note 12 to the unaudited interim Consolidated Financial Statements for additional information regarding the VERP.

Net Interest Expense

Net interest expense for the second quarter of 2020 was \$67 million compared to \$74 million in the second quarter of 2019. As further discussed in Note 9 to the unaudited interim Consolidated Financial Statements, the Company is currently accruing and paying interest on the DIP Credit Agreement, the 2017 Credit Facility, the 2016 Term Loan and the Senior Secured Notes. Interest on the remaining outstanding debt is not being accrued or paid. Unrecognized contractual interest expense totaled \$26 million during second quarter 2020.

Net interest expense for the first half of 2020 was \$142 million compared to \$147 million in the first half of 2019.

Reorganization Items, Net

Any expenses, gains or losses that are realized or incurred as of or subsequent to the Petition Date and as a direct result of the Chapter 11 Cases are recorded under Reorganization items, net in our unaudited interim Consolidated Statement of Operations. For the three and six months ended August 1, 2020, Reorganization items, net were \$108 million and consisted of the following items:

<i>(In millions)</i>	August 1, 2020
Advisor fees	\$ 64
Debtor-in-possession financing fees	50
Write-off of pre-petition unamortized debt issuance costs	33
Employee retention	21
Gains on lease terminations	(66)
Other	6
Total reorganization items, net	\$ 108

Income Taxes

The net tax benefit of \$7 million for the three months ended August 1, 2020, consisted of federal, state and foreign tax expense 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 \$9 million benefit due to the release of valuation allowance.

The net tax benefit of \$67 million for the six months ended August 1, 2020, consisted of federal, state and foreign tax benefits of \$1 million, \$2 million of expense related to the deferred tax asset change arising from the tax amortization of indefinite-lived intangible assets, net tax benefit of \$3 million resulting from state audit settlements and a \$65 million benefit due to the release of valuation allowance.

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 reorganization items, restructuring and management transition charges, other components of net periodic pension cost/(income), the loss due to discontinuance of hedge accounting, the net (gain)/loss on the sale of non-operating assets 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, reorganization items, restructuring and management transition charges, other components of net periodic pension cost/(income),

the loss due to discontinuance of hedge accounting, the net (gain)/loss on the sale of non-operating assets 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 jcp.com. Further, our non-GAAP adjustments are for non-operating associated activities such as store impairments included in restructuring and management transition charges. 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 reorganization items, restructuring and management transition charges, other components of net periodic pension cost/(income), the loss due to discontinuance of hedge accounting, the net (gain)/loss on the sale of non-operating assets and the tax impact for the allocation of income taxes to other comprehensive income items related to our pension plans and interest rate swaps on our financial results and therefore are presenting the following non-GAAP financial measures: (1) adjusted EBITDA; (2) adjusted net income/(loss); and (3) adjusted earnings/(loss) per share-diluted.

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

(\$ in millions)	Three Months Ended		Six Months Ended	
	August 1, 2020	August 3, 2019	August 1, 2020	August 3, 2019
Net income/(loss)	\$ (398)	\$ (48)	\$ (944)	\$ (202)
Add: Net interest expense	67	74	142	147
Add: (Gain)/loss on extinguishment of debt	—	(1)	—	(1)
Add: Loss due to discontinuance of hedge accounting	—	—	77	—
Add: Income tax expense/(benefit)	(7)	5	(67)	6
Add: Depreciation and amortization	161	137	296	284
Add: Restructuring and management transition charges	67	7	222	27
Add: Other components of net periodic pension cost/(income)	77	(13)	54	(26)
Add: Reorganization items, net	108	—	108	—
Less: Net (gain)/loss on the sale of non-operational assets	—	(1)	—	(1)
Adjusted EBITDA (non-GAAP)	\$ 75	\$ 160	\$ (112)	\$ 234

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:

(\$ in millions, except per share data)	Three Months Ended		Six Months Ended	
	August 1, 2020	August 3, 2019	August 1, 2020	August 3, 2019
Net income/(loss)	\$ (398)	\$ (48)	\$ (944)	\$ (202)
Diluted EPS	\$ (1.23)	\$ (0.15)	\$ (2.91)	\$ (0.63)
Add: Restructuring and management transition charges ⁽¹⁾	67	7	222	27
Add: Other components of net periodic pension cost/(income) ⁽¹⁾	77	(13)	54	(26)
Add: Loss due to discontinuance of hedge accounting ⁽²⁾	—	—	83	—
Add: (Gain)/loss on extinguishment of debt ⁽¹⁾	—	(1)	—	(1)
Add: Reorganization items, net	108	—	108	—
Less: Net (gain)/loss on sale of non-operating assets ⁽¹⁾	—	(1)	—	(1)
Adjusted net income/(loss) (non-GAAP)	\$ (146)	\$ (56)	\$ (477)	\$ (203)
Adjusted diluted EPS (non-GAAP)	\$ (0.45)	\$ (0.18)	\$ (1.47)	\$ (0.64)

⁽¹⁾ Adjustments reflect no tax effect due to the impact of the Company's tax valuation allowance.

⁽²⁾ Adjustment reflects \$6 million reclassified to income tax expense from accumulated other comprehensive income.

Liquidity and Capital Resources

During the Chapter 11 Cases, our primary sources of liquidity are cash generated from operations, available cash and cash equivalents and cash available under the DIP Credit Agreement. Our cash flows may be impacted by many factors including the economic environment, consumer confidence, competitive conditions in the retail industry, the success of our strategies and the continued uncertainties of the COVID-19 pandemic on the Company's operations. Following the commencement of the Chapter 11 Cases we no longer have access to a revolving credit facility. During second quarter 2020 the Company entered into the DIP Credit Agreement, which provided \$450 million of new money, \$225 million of which remains in escrow pending achievement of certain milestones. We may be required to repay the amount in such escrow account in excess of \$50 million if such milestones are not met. Refer to Note 9 to the unaudited interim Consolidated Financial Statements for a full description of the financing terms related to the funding under the DIP Credit Agreement.

We ended the second quarter of 2020 with \$1,483 million of cash, cash equivalents and restricted cash. Restricted cash of \$452 million consists primarily of the \$225 million of DIP Credit Agreement proceeds held in escrow noted above, cash collateral related to the 2017 Credit Facility, and amounts in escrow for professional fees due upon emergence as required under the DIP Credit Agreement. The cash collateral related to the 2017 Credit Facility fluctuates depending on the value of the asset collateral described in the agreement, primarily inventory, on the Company's balance sheet. Upon reopening our stores in second quarter 2020, our cash flows from operating activities improved on a year-to-date basis from an outflow of \$814 million for the three months ended May 2, 2020, to an outflow of \$445 million for the six months ended August 1, 2020, an improvement of \$369 million during second quarter 2020. This improvement in cash flows resulted from the reopening of our stores during second quarter 2020 and reductions in SG&A expenses.

Free Cash Flow (Non-GAAP)

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

The following table sets forth a reconciliation of net cash provided by/(used in) operating activities, the most directly comparable GAAP financial measure, to free cash flow, a non-GAAP financial measure, as well as information regarding net cash provided by/(used in) investing activities and net cash provided by/(used in) financing activities:

	Six Months Ended	
	August 1, 2020	August 3, 2019
<i>(\$ in millions)</i>		
Net cash provided by/(used in) operating activities (GAAP)	\$ (445)	\$ 1
Add:		
Proceeds from sale of operating assets	1	12
Less:		
Capital expenditures ⁽¹⁾	(43)	(146)
Free cash flow (non-GAAP)	\$ (487)	\$ (133)
Net cash provided by/(used in) investing activities ⁽²⁾	\$ (42)	\$ (133)
Net cash provided by/(used in) financing activities	\$ 1,584	\$ (26)

⁽¹⁾ As of the end of the second quarters of 2020 and 2019, we had accrued capital expenditures of \$18 million, \$12 million of which was pre-petition, and \$28 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.

For the six months ended August 1, 2020, free cash flow was an outflow of \$487 million compared to an outflow of \$133 million for the same period of the prior year. The increase in the outflow resulted primarily from the effect of the COVID-19 pandemic and the related temporary store closures. The \$487 million outflow for the six months ended August 1, 2020, is an improvement of \$360 million from the \$847 million free cash flow outflow through the first quarter of 2020, as the Company reopened stores in the second quarter 2020 and reduced SG&A expenses.

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. Due to the COVID-19 pandemic, the results of operations and cash flows for the six months ended August 1, 2020, are not necessarily indicative of the results for future quarters or the entire year.

Cash flow from operating activities for the six months ended August 1, 2020, declined \$446 million to an outflow of \$445 million compared to an inflow of \$1 million for the same period in 2019 primarily due to the temporary closure of all stores beginning March 19, 2020. In late April 2020, the Company began reopening stores and by the end of July 2020, most stores had reopened with limited operating hours and staffing levels.

Merchandise inventory decreased \$580 million, or 23.5%, to \$1,891 million as of the end of the second quarter of 2020 compared to \$2,471 million as of the end of the second quarter of 2019 and decreased \$275 million from year-end 2019, as a result of the deferral of supplier shipments due to the closing of stores and resulting decline in sales. Merchandise payables decreased \$642 million as of the end of the second quarter of 2020 compared to the corresponding prior year period and decreased \$550 million from year end 2019. The decline in merchandise payables primarily resulted from the reclassification of pre-petition amounts to Liabilities subject to compromise, deferred purchases and receipts of inventory, and a rise in advance or on delivery payments for merchandise during the second quarter of 2020.

Following the temporary store closures in March 2020, companies issuing credit cards accepted by the Company for consumer sales transactions withheld \$63 million in cash as of August 1, 2020, to be held as additional reserves. These reserves were established in accordance with the various credit card agreements and are recorded in prepaid expenses and other.

Investing Activities

Investing activities for the six months ended August 1, 2020 resulted in cash outflows of \$42 million compared to outflows of \$133 million for the same six month period of 2019, primarily due to the decrease of cash capital spending during the months subsequent to the temporary store closures in order to conserve liquidity. In addition, as of the end of the second quarters of 2020 and 2019, we had \$18 million, \$12 million of which was pre-petition, and \$28 million, respectively, of accrued capital expenditures. Cash 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.

Investing activities for the six months ended August 3, 2019, 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 \$4 million in the first half of 2019 to fund a portion of the capital expenditures related to store leasehold improvements.

Financing Activities

For the six months ended August 1, 2020, cash flows from financing activities were an inflow of \$1,584 million compared to an outflow of \$26 million for the same prior year period. During the first six months of 2020, the Company had net borrowings of \$1,204 million under its 2017 Credit Facility, primarily drawn to enhance liquidity at the onset of the COVID-19 pandemic.

Additionally, in connection with the Chapter 11 Cases and under the DIP Credit Agreement, the Company borrowed \$450 million of new money, of which \$225 million was funded to the Company on June 8, 2020 and \$225 million was funded to an escrow account on July 9, 2020. The Company also incurred \$50 million in DIP financing costs associated with the borrowing. Refer to Note 9 to the unaudited interim Consolidated Financial Statements for a full description of the financing terms related to the funding under the DIP Credit Agreement.

For the six months ended August 1, 2020, we paid \$19 million in required principal payments on outstanding debt prior to commencement of the Chapter 11 Cases.

Cash Flow Outlook

We believe that our existing liquidity, including cash on hand, funds generated from ongoing operations and availability of cash under the DIP Credit Agreement will be adequate to fund anticipated cash requirements through the Chapter 11 Cases.

Credit Ratings

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. Following the commencement of the Chapter 11 Cases (see Note 2 to the unaudited Interim Consolidated Financial Statements), all three credit rating agencies, Fitch Ratings, Moody's Investor Service, Inc. and Standard & Poor's Ratings Services, lowered their issue-level ratings on the Company to a 'Default' status rating. Additionally, and subsequent to downgrading the Company's issue-level rating to 'Default' and pursuant to our voluntary Chapter 11 filing, all three of the aforementioned credit rating agencies withdrew their issued credit ratings and outlook and have discontinued their rating coverage of the Company.

Contractual Obligations and Commitments

Aggregate information about our obligations and commitments to make future payments under contractual or contingent arrangements was disclosed in the 2019 Form 10-K. These obligations and commitments have been impacted by the Chapter 11 Cases. See Note 2 and Note 9 to the unaudited interim Consolidated Financial Statements.

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 and footwear 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. 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 apparel and footwear. The impact of COVID-19 on factory efficiency and capacity also has the potential to impact product costing and delivery.

Recently Issued Accounting Pronouncements

Recently issued accounting pronouncements are discussed in Note 4 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. Due to the COVID-19 pandemic, the results of operations and cash flows for the six months ended August 1, 2020, 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, risks attendant to the bankruptcy process, including the Company's ability to obtain court approval from the Bankruptcy Court with respect to motions or other requests made to the Bankruptcy Court throughout the course of the Chapter 11 Cases; the ability of the Company to negotiate, develop, confirm and consummate a plan of reorganization; the effects of the Chapter 11 Cases, including increased legal and other professional costs necessary to execute the Company's reorganization, on the

Company's liquidity (including the availability of operating capital during the pendency of the Chapter 11 Cases), results of operations or business prospects; the effects of the Chapter 11 Cases on the interests of various constituents; the length of time that the Company will operate under Chapter 11 protection; risks associated with third-party motions in the Chapter 11 Cases; Bankruptcy Court rulings in the Chapter 11 Cases and the outcome of the Chapter 11 Cases in general; conditions to which any debtor-in-possession financing is subject and the risk that these conditions may not be satisfied for various reasons, including for reasons outside the Company's control; 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 the Company merchandise on a timely basis or at all; trade restrictions; the ability to monetize non-core assets on acceptable terms; the ability to implement the Company's strategic plan, including its omnichannel initiatives; customer acceptance of the Company's strategies; the Company's ability to attract, motivate and retain key executives and other associates; the impact of cost reduction initiatives; the Company's 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 the Company imports 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; risks arising from the delisting of the Company's common stock from the New York Stock Exchange; and the impact of natural disasters, public health crises or other catastrophic events on the Company's financial results, in particular as the Company manages its business through the COVID-19 pandemic and the resulting restrictions and uncertainties in the general economic and business environment. There can be no assurances that the Company will achieve expected results, and actual results may be materially less than expectations. While we believe that our assumptions are reasonable, we caution that it is impossible to predict the degree to which any such factors could cause actual results to differ materially from predicted results. We intend the forward-looking statements in this Quarterly Report on Form 10-Q to speak only as of the date of this report and do not undertake to update or revise projections as more information becomes available.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risks in the normal course of business due to changes in interest rates. Our market risks related to interest rates at August 1, 2020, are similar to those disclosed in the 2019 Form 10-K except for the following sentence. The filing of the Chapter 11 Cases permitted the counterparties to our derivative instruments to terminate their outstanding interest rate hedges, and certain of our counterparties elected to exercise their right to terminate. Refer to Note 6 - "Derivative Financial Instruments" in the notes to the unaudited Interim Consolidated Financial Statements for more information on the effect of these terminations on our financial position and results of operations.

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.

We have appropriately implemented Financial Accounting Standards Board Accounting Standard Codification Topic No. 852 - Reorganizations (ACS 852) during the quarter and have prepared the unaudited interim Consolidated Financial Statements and disclosures in accordance with ASC 852.

The remote working of our associates and the corresponding remote closing of our books due to the COVID-19 pandemic, as well as the distractions of the Chapter 11 Cases, did not have a material impact on our ability to maintain control over financial reporting and our disclosure controls and procedures for the three months ended August 1, 2020. There were no changes in our internal control over financial reporting during second quarter ended August 1, 2020, that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings

The matters under the caption "Litigation" in Note 13 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

Risk factors relating to us are contained in Item 1A of our Annual Report on Form 10-K for the fiscal year ended February 1, 2020, and in Item 8.01 of our Current Report on Form 8-K filed with the Securities and Exchange Commission (the "SEC") on June 10, 2020. There have been no material changes to the risk factors disclosed in Item 1A of such Annual Report, except the following:

COVID-19 is adversely affecting, and is expected to continue to adversely affect, our business.

The global outbreak of a novel strain of coronavirus (COVID-19) and its rapid spread across the globe, including the U.S., is having an unprecedented impact on the U.S. economy and the retail industry. International, federal, state, and local public health and governmental authorities have taken extraordinary actions to contain and combat the outbreak and spread of COVID-19 in regions throughout the world, including travel bans, quarantines, "stay-at-home" orders, and similar mandates for many individuals to substantially restrict daily activities and for many businesses to curtail or cease normal operations. In response to these actions, the Company temporarily closed all of its physical stores effective March 19, 2020, and furloughed a significant number of its associates in early April 2020.

We continued to operate jcp.com throughout the period in which all of our physical stores were temporarily closed to customers in response to state and local shelter-in-place orders. Stores began re-opening to the public in late April 2020, and nearly all of our approximately 850 retail stores have been re-opened, with restricted operations in most cases. Additionally, even in markets where shelter-in-place orders have been lifted, and where we have fully re-opened stores, we are experiencing significantly reduced customer traffic relative to the same period last year. Customer traffic may be further reduced in areas experiencing increases in new COVID-19 cases. We may resume temporary closures, or further restrict the operations of our stores, corporate offices and distribution facilities, if we deem this necessary or if recommended or mandated by authorities. The extent

to which the COVID-19 pandemic impacts our business, financial position, cash flows and results of operations will depend on future developments, including, but not limited to, the duration, spread, severity and impact of the COVID-19 pandemic, its effects on our customers, associates and suppliers, the regulatory response and the impact of stimulus measures adopted by local, state and federal governments, to what extent normal economic and operating conditions can resume, and whether the COVID-19 pandemic leads to recessionary conditions in the United States. As such, impacts of COVID-19 to the Company are highly uncertain and we will continue to assess the financial impacts. The disruption to the global economy and to the Company's business may lead to additional triggering events that may indicate that the carrying value of certain assets, including inventories, long-lived assets, and intangibles may not be recoverable. Additionally, the COVID-19 pandemic may also exacerbate other risks disclosed in our Annual Report on Form 10-K for the year ended February 1, 2020, including, but not limited to, our competitiveness, supplier and supply chain risks, available liquidity and financing risks.

We are subject to risks and uncertainties associated with our Chapter 11 Cases.

As previously reported, the Debtors commenced the Chapter 11 Cases on May 15, 2020. For the duration of the Chapter 11 Cases, our operations and our ability to develop and execute our business plan, as well as our ability to continue as a going concern, are subject to risks and uncertainties associated with bankruptcy and the Chapter 11 Cases. These risks include:

- our ability to negotiate, develop, confirm and consummate a Chapter 11 plan of reorganization or alternative restructuring transaction;
- the high costs of bankruptcy proceedings and related fees;
- our ability to obtain sufficient financing to allow us to emerge from bankruptcy and execute our business plan post-emergence;
- our ability to maintain our relationships with our suppliers, service providers, customers, employees and other third parties;
- our ability to maintain contracts that are critical to our operations;
- our ability to attract, motivate and retain key employees;
- the ability of third parties to seek and obtain court approval to terminate contracts and other agreements with us;
- the ability of third parties to seek and obtain court approval to convert the Chapter 11 Cases to a Chapter 7 proceeding; and,
- the actions and decisions of our creditors and other third parties who have interests in our Chapter 11 Cases that may be inconsistent with our plans.

Delays in our Chapter 11 Cases increase the risks of us being unable to reorganize our business and emerge from bankruptcy and increase our costs associated with the bankruptcy process.

These risks and uncertainties could affect our business and operations in various ways. For example, negative events or publicity associated with our Chapter 11 Cases could adversely affect our relationships with suppliers, service providers, customers, employees and other third parties, which in turn could adversely affect our results of operations and financial condition. Also, pursuant to the Bankruptcy Code, we need the prior approval of the Bankruptcy Court for transactions outside the ordinary course of business, which may limit our ability to respond timely to certain events or take advantage of certain opportunities. In addition, certain parties may commence litigation with respect to the treatment of their claims under a plan. Although it is not possible to predict the potential litigation that we may become party to, or the final resolution of such litigation, such litigation could result in settlements or damages that could significantly affect our financial results. Because of the risks and uncertainties associated with our Chapter 11 Cases, we cannot accurately predict or quantify the ultimate impact that events that occur during our Chapter 11 Cases will have on our business, financial condition, results of operations and cash flows.

Operating under the Bankruptcy Court's protection for a long period of time may harm our business.

A long period of operations under the Bankruptcy Court's protection could have a material adverse effect on our business, financial condition, results of operations and liquidity. A prolonged period of operating under the Bankruptcy Court's protection may also make it more difficult to retain management and other key personnel necessary to the success and growth of our business. In addition, the longer the Chapter 11 Cases continue, the more likely it is that our customers and suppliers will lose confidence in our ability to reorganize our business successfully and will seek to establish alternative commercial relationships. Furthermore, so long as the Chapter 11 Cases continue, we will be required to incur substantial costs for professional fees and other expenses associated with the administration of the Chapter 11 Cases.

Any plan of reorganization that we may implement will be based in large part upon assumptions and analyses developed by us. If these assumptions and analyses prove to be incorrect, our plan may be unsuccessful in its execution.

Any plan of reorganization that we may implement could affect both our capital structure and the ownership, structure and operation of our businesses and will reflect assumptions and analyses based on our experience and perception of historical trends, current conditions and expected future developments, as well as other factors that we consider appropriate under the circumstances. In addition, any plan of reorganization will rely upon financial projections, including with respect to revenues, capital expenditures, debt service and cash flow. Financial forecasts are necessarily speculative, and it is likely that one or more of the assumptions and estimates that are the basis of these financial forecasts will not be accurate. Whether actual future results and developments will be consistent with our expectations and assumptions depends on a number of factors, including but not limited to (i) our ability to substantially change our capital structure, (ii) our ability to obtain adequate liquidity and financing sources, (iii) our ability to maintain customers' confidence in our viability as a continuing entity and to attract and retain sufficient business from them, (iv) our ability to retain key employees, and (v) the overall strength and stability of general economic conditions of the retail industry in the U.S. The impact of the COVID-19 pandemic on the retail industry in general, and on us, make it even more challenging than usual to develop financial forecasts. The failure of any of these factors could materially adversely affect the successful reorganization of our businesses. Consequently, there can be no assurance that the results or developments contemplated by any plan of reorganization we may implement will occur or, even if they do occur, that they will have the anticipated effects on us and our subsidiaries or our businesses or operations. The failure of any such results or developments to materialize as anticipated could materially adversely affect the successful execution of any plan of reorganization.

In certain instances, a Chapter 11 case may be converted to a case under Chapter 7 of the Bankruptcy Code.

There can be no assurance as to whether we will successfully reorganize and emerge from the Chapter 11 Cases or, if we do successfully reorganize, as to when we would emerge from the Chapter 11 Cases.

If the Bankruptcy Court finds that it would be in the best interest of creditors and/or the Debtors, the Bankruptcy Court may convert our Chapter 11 Cases to cases under Chapter 7 of the Bankruptcy Code. In such event, a Chapter 7 trustee would be appointed or elected to liquidate the Debtors' assets for distribution in accordance with the priorities established by the Bankruptcy Code. The Debtors believe that liquidation under Chapter 7 would result in significantly smaller distributions being made to the Debtors' creditors than those provided for in a Chapter 11 plan or reorganization because of (i) the likelihood that the assets would have to be sold or otherwise disposed of in a disorderly fashion over a short period of time rather than reorganizing or selling in a controlled manner the Debtors' businesses as a going concern, (ii) additional administrative expenses involved in the appointment of a Chapter 7 trustee, and (iii) additional expenses and claims, some of which would be entitled to priority, that would be generated during the liquidation and from the rejection of leases and other executory contracts in connection with a cessation of operations.

We may be subject to claims that will not be discharged in the Chapter 11 Cases, which could have a material adverse effect on our financial condition and results of operations.

The Bankruptcy Code provides that the confirmation of a plan of reorganization discharges a debtor from substantially all debts arising prior to confirmation. With few exceptions, all claims that arose before confirmation of the plan of reorganization (i) would be subject to compromise and/or treatment under the plan of reorganization and/or (ii) would be discharged in accordance with the terms of the plan of reorganization. Any claims not ultimately discharged through the plan of reorganization could be asserted against the reorganized entities and may have an adverse effect on their financial condition and results of operations on a post-reorganization basis.

The pursuit of the Chapter 11 Cases has consumed, and will continue to consume, a substantial portion of the time and attention of our management, which may have an adverse effect on our business and results of operations, and we may face increased levels of employee attrition.

While the Chapter 11 Cases continue, our management will be required to spend a significant amount of time and effort focusing on the Chapter 11 Cases instead of focusing exclusively on our business operations. This diversion of attention may materially adversely affect the conduct of our business, and, as a result, our financial condition and results of operations, particularly if the Chapter 11 Cases are protracted.

During the duration of the Chapter 11 Cases, our employees will face considerable distraction and uncertainty and we may experience increased levels of employee attrition. A loss of key personnel or material erosion of employee morale could have a

material adverse effect on our ability to meet customer expectations, thereby adversely affecting our business and results of operations. The failure to retain or attract members of our management team and other key personnel could impair our ability to execute our strategy and implement operational initiatives, thereby having a material adverse effect on our financial condition and results of operations.

Trading in our securities during the pendency of our Chapter 11 Cases poses substantial risks and is highly speculative. It is likely that our equity securities will be canceled, or that holders of such equity will not receive any distribution with respect to, or be able to recover any portion of, their investments. It is also impossible to predict at this time whether any of our other securities will be canceled or if holders of such securities will be able to realize any portion of their investment.

We caution that trading in our securities, including J. C. Penney's common stock, during the pendency of the Chapter 11 Cases is highly speculative and poses substantial risks. Trading prices for the Company's securities may bear little or no relationship to the actual recovery, if any, by holders of the Company's securities in the Chapter 11 Cases. In particular, J. C. Penney expects that its equity holders could experience a significant or complete loss on their investment, depending on the outcome of the Chapter 11 Cases.

We have recorded impairment charges in the past and we may be required to recognize impairment charges in the future.

Long-lived assets, primarily property and equipment, and right-of-use 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. Impairment charges, if any, resulting from the periodic testing are non-cash. We recognized impairment charges of \$167 million related to our intangible assets, right-of-use assets and long-lived assets during the six months ended August 1, 2020. Additional charges may result from additional store closures based on the Debtors' review or rejection of other leases and contracts, or due to changes in other factors or circumstances, including deterioration in the macroeconomic environment or in the retail industry, deterioration in our performance or our future projections as a result of the Chapter 11 Cases or otherwise, if actual results are not consistent with our estimates and assumptions used in the impairment analyses, or changes in our plans for one or more indefinite-lived intangible assets. The impairment analyses are particularly sensitive to changes in the projected revenue growth rate and the assumed weighted-average cost of capital or other discount rates. Changes to these key assumptions could result in revisions of management's estimates of the fair value of the indefinite-lived intangible assets, or long-lived assets or right-of-use lease assets and could result in impairment charges in the future, which could be material to our results of operations.

Our ability to use our net operating loss carryforwards ("NOLs") may become subject to limitation, or may be reduced or eliminated, in connection with the implementation of a plan of reorganization. We have adopted a stockholders' rights agreement and the Bankruptcy Court has entered an order that are each designed to protect our NOLs until a plan of reorganization is consummated.

Generally, a company generates NOLs if the operating expenses it has incurred exceed the revenues it has earned during a single tax year. A company may apply, or "carry forward," NOLs to reduce future tax payments (subject to certain conditions and limitations). We currently estimate that, as of August 1, 2020, we had U.S. federal NOLs of approximately \$2.5 billion. The majority of these NOLs (expiring in 2032 through 2034) arose prior to December 31, 2017 and are available to offset future taxable income without limitation. NOLs arising after December 31, 2017 are only available to offset up to 80% of our future taxable income in any given taxable year beginning after 2020.

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. Generally, an ownership change occurs if the Company's "five-percent shareholders" (as defined in Section 382 of the Code) have collectively increased their ownership in the Company by more than 50 percentage points (by value) at any time during a rolling three-year period ending on the date of the ownership change. 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. This limitation is derived by multiplying the fair market value of the Company stock immediately prior to the ownership change by the applicable federal long-term tax-exempt rate, which is .89% for an ownership

change occurring in July 2020. 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. The Company does not believe it has had an ownership change based on all available information.

We expect that we will undergo an ownership change under Section 382 of the Code in connection with the consummation of a plan of reorganization. Nevertheless, we believe these NOLs are a valuable asset for us, particularly in the context of the Chapter 11 Cases. Prior to the Chapter 11 Cases, we put a stockholders' rights agreement in place (the "Rights Agreement"). The Rights Agreement was designed to make it more difficult for a third party to acquire, and to discourage a third party from acquiring, a large block of our common stock that could put us at risk of undergoing an ownership change. On May 16, 2020, the Bankruptcy Court entered an order that sets forth procedures (including notice requirements) that certain shareholders and potential shareholders must comply with regarding transfers of, or declarations of worthlessness with respect to, our common stock, as well as certain obligations with respect to notifying us of current share ownership (the "Procedures"). The Rights Agreement and the Procedures are each designed to reduce the likelihood of an "ownership change" occurring prior to the consummation of a bankruptcy plan of reorganization, both to ensure that our NOLs (and other tax attributes) are available to address the immediate tax consequences of any such bankruptcy plan of reorganization and to preserve the potential ability to rely on certain rules that apply to ownership changes occurring as a result of a bankruptcy plan of reorganization. However, there is no assurance that the Rights Agreement or the Procedures will prevent all transfers that could result in such an "ownership change."

In addition, our NOLs (and other tax attributes) may be subject to use in connection with the implementation of any bankruptcy plan of reorganization or reduction as a result of any cancellation of indebtedness income arising in connection with the implementation of any bankruptcy plan of reorganization. As such, at this time, there can be no assurance that we will have NOLs to offset future taxable income.

Item 6. Exhibits

Exhibit Index

Exhibit No.	Exhibit Description	Incorporated by Reference				Filed (†) Herewith (as indicated)
		Form	SEC File No.	Exhibit	Filing Date	
3.1	Restated Certificate of Incorporation of J. C. Penney Company, Inc., as amended to May 20, 2011	10-Q	001-15274	3.1	6/8/2011	
3.2	J. C. Penney Company, Inc. Bylaws, as amended to July 20, 2016	8-K	001-15274	3.1	7/21/2016	
3.3	Certificate of Designation, Preferences and Rights of Series C Junior Participating Preferred Stock	8-K	001-15274	3.1	8/22/2013	
4.1	Order Approving Notification and Hearing Procedures for Certain Transfers of and Declarations of Worthlessness with Respect to Common Stock	8-K	001-15274	4.1	5/18/2020	
10.1	Restructuring Support Agreement	8-K	001-15274	10.1	5/18/2020	
10.2	Debtor-in-Possession Commitment Letter	8-K	001-15274	10.2	5/18/2020	
10.3	Superpriority Senior Secured Debtor-In-Possession Credit and Guaranty Agreement, dated as of June 8, 2020, by and among J. C. Penney Corporation, Inc., as Borrower, J. C. Penney Company, Inc. and Certain Subsidiaries of J. C. Penney Company, Inc., as Guarantors, Various Lenders thereto, GLAS USA LLC, as Administrative Agent, and GLAS Americas LLC, as Collateral Agent	8-K	001-15274	10.1	6/10/2020	
10.4	First Amendment to Restructuring Support Agreement, effective as of July 14, 2020					†
10.5	Waiver to Superpriority Senior Secured Debtor-In-Possession Credit and Guaranty Agreement, dated July 14, 2020					†
10.6	Waiver to Superpriority Senior Secured Debtor-In-Possession Credit and Guaranty Agreement, dated July 31, 2020					†
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: September 10, 2020

AMENDMENT TO RESTRUCTURING SUPPORT AGREEMENT

This **AMENDMENT TO RESTRUCTURING SUPPORT AGREEMENT**, dated as of July 24, 2020 (this "Amendment"), is entered into by and among the following parties (each, a "Party" and, collectively, the "Parties"), effective as of July 14, 2020 (the "Amendment Effective Date"):

- i. J. C. Penney Company, Inc., together with certain of its direct and indirect subsidiaries (collectively, the "Company Parties"); and
- ii. the undersigned holders of First Lien Notes Claims and/or Term Loan Claims (together with their respective successors and permitted assigns, the "Consenting First Lien Lenders") under the First Lien Indenture and/or the Term Loan Credit Agreement, as applicable.¹

This Amendment amends that certain Restructuring Support Agreement, dated as of May 15, 2020, by and among the Company Parties, the Consenting First Lien Noteholders, and the Consenting Term Lenders (as amended, restated, supplemented or otherwise modified from time to time, the "Restructuring Support Agreement"). Capitalized terms used but not otherwise defined herein have the meanings ascribed to such terms in the Restructuring Support Agreement.

RECITALS

WHEREAS, Sections 4.01, 4.02 and 13(b) of the Restructuring Support Agreement permit the Company Parties to extend Milestones set forth in Section 4 of the Restructuring Support Agreement with the prior written consent (email from counsel being sufficient) of the Required Consenting First Lien Lenders;

WHEREAS, the Consenting First Lien Lenders signatories hereto constitute the Required Consenting First Lien Lenders;

WHEREAS, pursuant to Section 4.02 of the Restructuring Support Agreement, the Parties desire to extend certain Milestones as set forth in this Amendment.

NOW, THEREFORE, in consideration of the covenants and agreements contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, each Party, intending to be legally bound hereby, agrees as follows:

¹ An affiliate of a holder of claims under the First Lien Indenture or the Term Loan Credit Agreement, as applicable, who is not itself a holder of claims under the First Lien Indenture or the Term Loan Credit Agreement, as applicable, who has executed the Restructuring Support Agreement shall be deemed, for purposes hereof, a Consenting First Lien Lender.

AGREEMENT

Section 1. Amendment to the Restructuring Support Agreement

Subject to the satisfaction of the conditions precedent specified in Section 3 hereof, but effective as of the Amendment Effective Date, the Restructuring Support Agreement shall be deemed amended as follows:

Section 1. Section 1.01 of the Restructuring Support Amendment is hereby amended by adding the following defined terms in appropriate alphabetical order:

“Business Plan Toggle Event” means the failure of the Debtors and the Required Consenting First Lien Lenders to agree on an acceptable Business Plan at or prior to 11:59 p.m., New York City time, on July 31, 2020 or such later date as may be agreed upon by the Company Parties with the prior written consent (email from counsel being sufficient) of the Required Consenting First Lien Lenders.

Section 2. Section 4.01 of the Restructuring Support Agreement is hereby amended by striking the existing clauses (h), (i), and (j) therein and inserting the following language:

“(h) no later than July 31, 2020, the Company Parties and the Required Consenting First Lien Lenders shall have agreed on an acceptable Business Plan;

(i) no later than September 30, 2020 (or if the Business Plan Toggle Event shall have occurred, August 30, 2020), the Bankruptcy Court shall have entered an order approving either (i) the Disclosure Statement or (ii) acceptable bidding procedures; and

(j) no later than October 21, 2020 (or if the Business Plan Toggle Event shall have occurred, September 21, 2020), the Bankruptcy Court shall have entered either (A) the Confirmation Order or (B) an order approving an acceptable sale or sales;

provided that the Milestones set forth herein shall be subject to the following conditions and covenants and the Debtors’ failure to comply with any of the following conditions and covenants shall constitute a Toggle Event (as defined in the DIP Credit Agreement):

(i) all funds from the Final Loan (as defined in the DIP Credit Agreement) shall remain in the Final Loan Escrow Account (as defined in the DIP Credit Agreement) through July 31, 2020;

(ii) review of the appropriate downsizing of the \$50,000,000 amount set forth in Section 2.1(d)(ii) of the DIP Credit Agreement;

(iii) the Debtors shall deliver the budget described in Section 2.1(d)(ii) of the DIP Credit Agreement in connection with a sale pursuant to section 363 of the Bankruptcy Code to the DIP Agent and the DIP Lenders by July 17, 2020;

(iv)the receipt of indicative bids for opco/propco by July 22, 2020; and

(v)continued updates to and involvement of the DIP Lenders regarding the process for the consummation of a sale of all or substantially all of the assets of the Debtors pursuant to section 363 of the Bankruptcy Code.”

Section 3. The Milestone pursuant to the Toggle Event in the Restructuring Term Sheet, attached as Exhibit A to the Restructuring Support Agreement, requiring the Debtors and the Required Consenting First Lien Lenders to have agreed on an acceptable Business Plan, shall be amended as follows:

By July 31, 2020, the Debtors and the Required Consenting First Lien Lenders shall have agreed on an acceptable Business Plan.

Section 4. The Milestone pursuant to the Toggle Event in the Restructuring Term Sheet, attached as Exhibit A to the Restructuring Support Agreement, requiring the Debtors to have obtained binding commitments for all third-party financing (on terms acceptable to Required Consenting First Lien Lenders) necessary to finance such a business plan in accordance with the other Plan provisions of the term sheet, shall be amended as follows:

By August 30, 2020, the Debtors shall also obtain binding commitments for all third-party financing (on terms acceptable to Required Consenting First Lien Lenders) necessary to finance such a business plan in accordance with the other Plan provisions of the term sheet.

Section 5. Ratification

Except as specifically provided for in this Amendment, no waivers, releases, changes, amendments, or other modifications have been made on or prior to the date hereof or are being made to the terms of the Restructuring Support Agreement or the rights and obligations of the parties thereunder, all of which such terms are hereby ratified and confirmed and remain in full force and effect.

Section 6. Effectiveness

This Amendment shall become effective and binding on the Parties on the date counterpart signatures to this Amendment shall have been executed by (a) the Company Parties and (b) parties constituting the Required Consenting First Lien Lenders.

Section 7. Headings

Titles and headings in this Amendment are inserted solely for the convenience of reference and are not a part of and are not intended to govern, limit, or aid in the construction or interpretation of any term or provision hereof.

Section 8. Execution of Amendment

This Amendment may be executed and delivered (by facsimile, electronic mail, or otherwise) in any number of counterparts, each of which, when executed and delivered, shall be deemed an original, and all of which together shall constitute the same agreement.

Section 9. Governing Law; Jurisdiction; Selection of Forum; Waiver of Trial by Jury

This Amendment is to be governed by and construed in accordance with the laws of the State of NEW YORK applicable to contracts made and to be performed in such state, without giving effect to the conflict of laws principles thereof. Each Party hereto agrees that it shall bring any action or proceeding in respect of any claim arising out of or related to this Amendment in the Bankruptcy Court, and solely in connection with claims arising under this Amendment (a) irrevocably submits to the exclusive jurisdiction of the Bankruptcy Court, (b) waives any objection to laying venue in any such action or proceeding in the Bankruptcy Court, and (c) waives any objection that the Bankruptcy Court is an inconvenient forum or does not have jurisdiction over any Party hereto. Each Party hereto irrevocably waives any and all right to trial by jury in any legal proceeding arising out of or relating to this Amendment or the transactions contemplated hereby.

[Signature pages follow]

IN WITNESS WHEREOF, the Parties have caused this Amendment to be executed and delivered by their respective duly authorized officers or other agents, solely in their respective capacity as officers or other agents of the undersigned and not in any other capacity, as of the Amendment Effective Date.

COMPANY PARTIES:

J. C. Penney Company, Inc.

By: /s/ Bill Wafford
Name: Bill Wafford
Title: Chief Financial Officer

J. C. Penney Corporation, Inc.

By: /s/ Bill Wafford
Name: Bill Wafford
Title: Chief Financial Officer

JCP Real Estate Holdings, LLC

By: /s/ Dawn Wolverton
Name: Dawn Wolverton
Title: Assistant Secretary

J. C. Penney Properties, LLC

By: /s/ Dawn Wolverton
Name: Dawn Wolverton
Title: Assistant Secretary

J. C. Penney Purchasing Corp.

By: /s/ Dawn Wolverton
Name: Dawn Wolverton
Title: Assistant Secretary

JCPenney Services, LLC

By: /s/ Bill Wafford
Name: Bill Wafford
Title: Chief Financial Officer

JCP Realty, LLC

By: /s/ Bill Wafford
Name: Bill Wafford
Title: Chief Financial Officer

[Signature Page to Amendment to Restructuring Support Agreement]

JCP New Jersey, LLC

By: /s/ Bill Wafford
Name: Bill Wafford
Title: Chief Financial Officer

jcpSSC, Inc.

By: /s/ Bill Wafford
Name: Bill Wafford
Title: Chief Financial Officer

J. C. Penney Direct Marketing Services, LLC

By: /s/ Bill Wafford
Name: Bill Wafford
Title: Chief Financial Officer

JCP Construction Services, Inc.

By: /s/ Bill Wafford
Name: Bill Wafford
Title: Chief Financial Officer

JCP Procurement, Inc.

By: /s/ Bill Wafford
Name: Bill Wafford
Title: Chief Financial Officer

J. C. Penney Export Merchandising Corporation

By: /s/ Bill Wafford
Name: Bill Wafford
Title: Chief Financial Officer

J. C. Penney International, InC.

By: /s/ Bill Wafford
Name: Bill Wafford
Title: Chief Financial Officer

JCPenney Puerto Rico, Inc.

By: /s/ Bill Wafford
Name: Bill Wafford
Title: Chief Financial Officer

[Signature Page to Amendment to Restructuring Support Agreement]

JCP Media, Inc.

By: /s/ Bill Wafford
Name: Bill Wafford
Title: Chief Financial Officer

JCP Telecom Systems, Inc.

By: /s/ Bill Wafford
Name: Bill Wafford
Title: Chief Financial Officer

Future Source LLC

By: /s/ Bill Wafford
Name: Bill Wafford
Title: Chief Financial Officer

[Signature Page to Amendment to Restructuring Support Agreement]

LENDER

By Brigade Capital Management, LP as Investment Manager, on Behalf of its Various Funds and Accounts [DIP LENDER]

By: /s/ Patrick Criscillo

Name: Patrick Criscillo

Title: Chief Financial Officer

[Signature Page to Amendment to Restructuring Support Agreement]

LENDERS:

H/2 CAPITAL PARTNERS LLC

By: /s/ Ashvin Rao
Name: Ashvin Rao
Title: Authorized Signatory

[Signature Page to Amendment to Restructuring Support Agreement]

LENDER

Sculptor GC Opportunities Master Fund, Ltd.
By: Sculptor Capital LP, its investment manager
By: Sculptor Capital Holding Corporation, its General Partner

By: /s/ Wayne Cohen

Name: Wayne Cohen

Title: President and Chief Operating Officer

[Signature Page to Amendment to Restructuring Support Agreement]

LENDER

Sculptor SC II, LP

By: Sculptor Capital II LP, its investment manager

By: Sculptor Capital Holding II LLC, its General Partner By: Sculptor Capital LP, its Member

By: Sculptor Capital Holding Corporation, its General Partner

By: /s/ Wayne Cohen

Name: Wayne Cohen

Title: President and Chief Operating Officer

[Signature Page to Amendment to Restructuring Support Agreement]

LENDER

Sculptor Credit Opportunities Master Fund, Ltd.

By: Sculptor Capital LP, its investment manager

By: Sculptor Capital Holding Corporation, its General Partner

By: /s/ Wayne Cohen

Name: Wayne Cohen

Title: President and Chief Operating Officer

[Signature Page to Amendment to Restructuring Support Agreement]

LENDER

Sculptor Enhanced Master Fund, Ltd.

By: Sculptor Capital LP, its investment manager

By: Sculptor Capital Holding Corporation, its General Partner

By: /s/ Wayne Cohen

Name: Wayne Cohen

Title: President and Chief Operating Officer

[Signature Page to Amendment to Restructuring Support Agreement]

LENDER

Sculptor Master Fund, Ltd.

By: Sculptor Capital LP, its investment manager

By: Sculptor Capital Holding Corporation, its General Partner

By: /s/ Wayne Cohen

Name: Wayne Cohen

Title: President and Chief Operating Officer

[Signature Page to Amendment to Restructuring Support Agreement]

LENDER

SPCP Access Holdings, LLC

By: /s/ Stacey Hatch

Name: Stacey Hatch

Title: Authorized Signatory

[Signature Page to Amendment to Restructuring Support Agreement]

LENDER

SPCP Institutional Group, LLC

By: /s/ Stacey Hatch

Name: Stacey Hatch

Title: Authorized Signatory

[Signature Page to Amendment to Restructuring Support Agreement]

LENDER

SPCP Group, LLC

By: /s/ Stacey Hatch

Name: Stacey Hatch

Title: Authorized Signatory

[Signature Page to Amendment to Restructuring Support Agreement]

LENDER

TAO FUND, LLC

By: /s/ Joshua Peck

Name: Joshua Peck

Title: Vice President

[Signature Page to Amendment to Restructuring Support Agreement]

LENDER

TAO FINANCE 3-A, LLC

By: /s/ Joshua Peck

Name: Joshua Peck

Title: Vice President

[Signature Page to Amendment to Restructuring Support Agreement]

LENDER

TOP FUND IV, LLC

By: /s/ Joshua Peck

Name: Joshua Peck

Title: Vice President

[Signature Page to Amendment to Restructuring Support Agreement]

LENDER

REDWOOD IV FINANCE 3, LLC

By: /s/ Joshua Peck

Name: Joshua Peck

Title: Vice President

[Signature Page to Amendment to Restructuring Support Agreement]

LENDER

SIXTH STREET SPECIALTY LENDING, INC.

By: /s/ Joshua Easterly

Name: Joshua Easterly

Title: Chief Executive Officer

[Signature Page to Amendment to Restructuring Support Agreement]

LIMITED AND SPECIFIC WAIVER

This LIMITED AND SPECIFIC WAIVER, dated as of July 14, 2020 (this “Waiver”), to SUPERPRIORITY SENIOR SECURED DEBTOR-IN-POSSESSION CREDIT AND GUARANTY AGREEMENT, dated as of June 8, 2020 (as amended, restated, amended and restated, supplemented, waived or otherwise modified from time to time prior to the effectiveness of this Waiver, the “Credit Agreement”), is entered into by and among J. C. PENNEY CORPORATION, INC., a Delaware corporation, as debtor and debtor-in-possession (“Borrower”), J. C. PENNEY COMPANY, INC., a Delaware corporation, as debtor and debtor-in-possession (“Holdings”), certain SUBSIDIARIES OF HOLDINGS, each as debtors and debtors-in-possession, as Guarantors, the Lenders party hereto constituting the Supermajority Lenders, the other Credit Parties, and GLAS USA LLC, a limited liability company organized and existing under the laws of the State of New Jersey, as administrative agent for the Lenders (in such capacity, together with its successors and assigns in such capacity, “Administrative Agent”).

RECITALS

WHEREAS, on the terms and subject to the conditions set forth in this Waiver and pursuant to and in accordance with the terms and conditions set forth in Section 10.5 of the Credit Agreement, (a) Borrower has requested that the Lenders party hereto constituting the Supermajority Lenders hereby agree to the Limited and Specific Waivers (as defined below), (b) the Lenders party hereto constituting the Supermajority Lenders are willing to agree to the Limited and Specific Waivers and (c) the Lenders party hereto constituting the Supermajority Lenders have authorized, directed and instructed Administrative Agent to execute and deliver this Waiver; and

WHEREAS, as a result of the execution and delivery of this Waiver, the parties hereto hereby agree that no Toggle Event has occurred as of the date of this Waiver.

NOW, THEREFORE, in consideration of the Limited and Specific Waivers contained in this Waiver and other good and valuable consideration, the sufficiency and receipt of which are hereby acknowledged, the parties hereto hereby agree as follows:

- a. ***Defined Terms; Interpretation; Etc.*** Capitalized terms used and not defined in this Waiver shall have the meanings assigned to such terms in the Credit Agreement.
 - b. ***Limited and Specific Waivers.*** On the Effective Date (as defined below), on the terms and subject to the conditions set forth in this Waiver and pursuant to and in accordance with the terms and conditions set forth in Section 10.5 of the Credit Agreement, the parties hereto (which, for the avoidance of doubt, includes the Supermajority Lenders) hereby waive:
 1. any Default or Event of Default arising from the failure of the Credit Parties to satisfy the requirement set forth in Section 5.13(h) of the Credit Agreement that the Credit Parties and Administrative Agent shall have agreed upon a satisfactory Business Plan no later than July 14, 2020 (and/or any failure to provide notice of any such Default or Event of Default, including, for the avoidance of doubt, any such Default or Event of Default under Section 5.13(h) or Section 5.1(e) of the Credit Agreement);
 2. the occurrence of a Toggle Event under clause (a) of the definition thereof due to the failure of the Supermajority Lenders to approve the Business Plan by July 15, 2020 (it being understood and agreed that no Toggle Event shall be deemed to have occurred) so long as the Supermajority Lenders approve the Business Plan at or prior to 11:59 p.m., New York City time, on July 31, 2020 (the failure of the Supermajority Lenders to approve the Business Plan by such deadline, the “First Toggle Event”);
-

3. the occurrence of a Toggle Event under clause (b) of the definition thereof due to the failure by the Credit Parties to obtain binding commitments for third-party financing (on terms satisfactory to Administrative Agent) necessary to finance the Business Plan approved by the Supermajority Lenders by August 15, 2020 (it being understood and agreed that no Toggle Event shall be deemed to have occurred) so long as the Credit Parties obtain binding commitments for third-party financing (on terms satisfactory to Administrative Agent) necessary to finance the Business Plan approved by the Supermajority Lenders at or prior to 11:59 p.m., New York City time, on August 30, 2020 (whether or not August 30, 2020 is a Business Day) (the failure of the Credit Parties to obtain such binding commitments by such deadline, the “Second Toggle Event”);

4. if the First Toggle Event shall not have occurred, but the Second Toggle Event shall have occurred, the requirement set forth in Section 5.13(i) of the Credit Agreement that the Credit Parties will (unless otherwise provided for in the RSA) have filed either (A) a motion seeking approval of a disclosure statement with respect to an Acceptable Plan with the Bankruptcy Court (“Motion A”) or (B) a motion seeking approval of bidding procedures and a sale in form and substance satisfactory to Administrative Agent with the Bankruptcy Court (“Motion B”) no later than 90 days after the Petition Date so long as the Credit Parties have (unless otherwise provided for in the RSA) have filed either Motion A or Motion B at or prior to 11:59 p.m., New York City time, on September 14, 2020;

5. if the First Toggle Event shall have occurred, but the Second Toggle Event shall not have occurred, the requirement set forth in Section 5.13(j) of the Credit Agreement that the Bankruptcy Court shall have entered an order in form and substance satisfactory to Administrative Agent either approving (A) a satisfactory disclosure statement (“Order A”) or (B) satisfactory bidding procedures (“Order B”) no later than 130 days after the Petition Date so long as the Bankruptcy Court shall have entered Order A or Order B at or prior to 11:59 p.m., New York City time, on August 30, 2020;

6. if the First Toggle Event shall not have occurred, but the Second Toggle Event shall have occurred, the requirement set forth in Section 5.13(j) of the Credit Agreement that the Bankruptcy Court shall have entered an order in form and substance satisfactory to Administrative Agent either approving (A) Order A or (B) Order B no later than 130 days after the Petition Date so long as the Bankruptcy Court shall have entered Order A or Order B at or prior to 11:59 p.m., New York City time, on September 30, 2020;

7. if the First Toggle Event shall have occurred, but the Second Toggle Event shall not have occurred, the requirement set forth in Section 5.13(k) of the Credit Agreement that the Bankruptcy Court shall have entered one or more orders in form and substance satisfactory to Administrative Agent either (1) confirming an Acceptable Plan or (2) approving a satisfactory sale or sales (such order or orders, the “Sales/Plan Order”) no later than 160 days after the Petition Date so long as the Bankruptcy Court shall have entered the Sales/Plan Order at or prior to 11:59 p.m., New York City time, on September 21, 2020; and

8. if the First Toggle Event shall not have occurred, but the Second Toggle Event shall have occurred, the requirement set forth in Section 5.13(k) of the Credit Agreement that the Bankruptcy Court shall have entered the Sales/Plan Order no later than 160 days after the Petition Date so long as the Bankruptcy Court shall have entered the Sales/Plan Order at or prior to 11:59 p.m., New York City time, on October 21, 2020;

provided that the waivers set forth in the foregoing clauses (b) and (c) shall only be in effect to the extent that the following conditions subsequent and covenants are and remain satisfied in accordance with their terms (it being understood and agreed that (x) the waivers set forth in the foregoing clauses (d) through (h) shall continue to be in

effect and (y) a Toggle Event shall be deemed to have immediately occurred to the extent that the following conditions subsequent and covenants are not satisfied in accordance with their terms):

- (a) all funds from the Final Loan shall remain in the Final Loan Escrow Account through July 31, 2020;
- (b) review of the appropriate downsizing of the \$50,000,000 amount set forth in Section 2.1(d)(ii) of the Credit Agreement;
- (c) the Credit Parties shall deliver the budget described in Section 2.1(d)(ii) of the Credit Agreement in connection with a sale pursuant to section 363 to Administrative Agent and the Lenders by July 17, 2020;
- (d) the receipt of indicative bids for opco/propco by July 22, 2020; and
- (e) continued updates to and involvement of the Lenders regarding the process for the consummation of a sale of all or substantially all of the assets of the Credit Parties pursuant to section 363 of the Bankruptcy Code.

a. **Conditions Precedent to Effectiveness.** This Waiver shall become effective solely upon the satisfaction (or waiver in accordance with the terms and conditions of Section 10.5 of the Credit Agreement) of the following conditions precedent (upon satisfaction of such conditions, such date being referred to in this Waiver as the “Effective Date”):

1. Administrative Agent shall have received a counterpart signature page of this Waiver duly executed by each of the Credit Parties and the Lenders party hereto constituting the Supermajority Lenders;

2. as of the Effective Date and after giving effect to the Limited and Specific Waivers, the representations and warranties contained in the Credit Agreement and in the other Credit Documents shall be true and correct in all material respects on and as of the Effective Date to the same extent as though made on and as of that date, except to the extent such representations and warranties specifically relate to an earlier date, in which case such representations and warranties shall have been true and correct in all material respects on and as of such earlier date; provided that, in each case, such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality in the text thereof;

3. as of the Effective Date and after giving effect to the Limited and Specific Waivers, no Default or Event of Default shall have occurred and be continuing or would immediately result from the Limited and Specific Waivers;

4. the RSA shall have been revised to reflect all of the Limited and Specific Waivers set forth in this Waiver; and

5. each confidentiality agreement between the Borrower and any Lender shall have been revised to reflect all of the Limited and Specific Waivers set forth in this Waiver.

b. **Representations and Warranties.** In order to induce Administrative Agent and the Lenders party hereto to enter into this Waiver, each Credit Party represents and warrants to Administrative Agent and the Lender party hereto, that the following statements are true, complete and correct:

i. as of the Effective Date after giving effect to the Limited and Specific Waivers, the representations and warranties contained in the Credit Agreement and in the other Credit Documents are true and correct in

all material respects on and as of the Effective Date to the same extent as though made on and as of that date, except to the extent such representations and warranties specifically relate to an earlier date, in which case such representations and warranties are true and correct in all material respects on and as of such earlier date; provided that, in each case, such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality in the text thereof; and

ii. as of the Effective Date after giving effect to the Limited and Specific Waivers, no Default or Event of Default has occurred and is continuing or would immediately result from the Limited and Specific Waivers.

c. **Reaffirmation of Guarantees and Security Interests.** Each Credit Party hereby acknowledges its receipt of a copy of this Waiver and its review of the terms and conditions of this Waiver and consents to the terms and conditions of this Waiver, including the Limited and Specific Waivers. Each Credit Party hereby (a) affirms and confirms its guarantees, pledges, grants and other undertakings under the Credit Agreement and the other Credit Documents to which it is a party and (b) agrees that (i) each Credit Document to which it is a party shall continue to be in full force and effect and (ii) all guarantees, pledges, grants and other undertakings thereunder shall continue to be in full force and effect and shall accrue to the benefit of the Secured Parties.

d. **Expenses; Indemnity.** Each of Sections 10.2 and 10.3 of the Credit Agreement is hereby incorporated, *mutatis mutandis*, by reference as if such Sections were set forth in full in this Waiver.

e. **Effect on the Credit Agreement.**

i. Except as specifically waived by this Waiver, the Credit Agreement and the other Credit Documents shall remain in full force and effect and are hereby ratified and confirmed.

ii. Except as specifically waived by this Waiver, the execution, delivery and performance of this Waiver shall not constitute a waiver of any provision of, or operate as a waiver of any right, power or remedy of any Agent or Lender under any Credit Document.

iii. The parties hereto expressly acknowledge that it is not their intention that this Waiver or any of the other Credit Documents executed or delivered pursuant hereto constitute a novation of any of the obligations, covenants or agreements contained in the Credit Agreement or any other Credit Document, but a limited and specific waiver thereof pursuant to the terms and conditions contained herein.

iv. From and after the Effective Date, each reference in the Credit Agreement to “this Agreement”, “hereunder”, “hereof”, “herein” or words of like import referring to the Credit Agreement, and each reference in the other Credit Documents to the “Credit Agreement”, “thereunder”, “thereof” or words of like import referring to the Credit Agreement shall mean and be a reference to the Credit Agreement as specifically waived by this Waiver.

v. This Waiver is, and shall be deemed to be, a Credit Document.

f. **Miscellaneous.**

i. **Amendment, Modification and Waiver.** This Waiver may not be amended or modified, nor may any provision of this Waiver be waived, except pursuant to the terms and conditions of Section 10.5 of the Credit Agreement.

ii. **Entire Agreement.** This Waiver, the Credit Agreement and the other Credit Documents constitute the entire agreement among the parties with respect to the subject matter of this Waiver and thereof and supersede all other prior agreements and understandings, both written and verbal, among the parties or any of them with respect to the subject matter of this Waiver.

iii. **Applicable Law.** THIS WAIVER AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER (INCLUDING, WITHOUT LIMITATION, ANY CLAIMS SOUNDING IN CONTRACT LAW OR TORT LAW ARISING OUT OF THE SUBJECT MATTER HEREOF AND ANY DETERMINATIONS WITH RESPECT TO POST-JUDGMENT INTEREST) SHALL BE GOVERNED BY, AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK WITHOUT REGARD TO CONFLICT OF LAWS PRINCIPLES THEREOF THAT WOULD RESULT IN THE APPLICATION OF ANY LAW OTHER THAN THE LAW OF THE STATE OF NEW YORK AND EXCEPT TO THE EXTENT GOVERNED OR SUPERSEDED BY THE BANKRUPTCY CODE.

iv. **Consent to Jurisdiction.** SUBJECT TO CLAUSE (E) OF THE FOLLOWING SENTENCE, ALL JUDICIAL PROCEEDINGS BROUGHT AGAINST ANY PARTY ARISING OUT OF OR RELATING HERETO OR ANY OTHER CREDIT DOCUMENTS, OR ANY OF THE OBLIGATIONS, SHALL BE BROUGHT IN THE BANKRUPTCY COURT, OR IF THE BANKRUPTCY COURT DOES NOT HAVE (OR ABSTAINS FROM) JURISDICTION, ANY FEDERAL COURT OF THE UNITED STATES OF AMERICA SITTING IN THE BOROUGH OF MANHATTAN OR, IF THAT COURT DOES NOT HAVE SUBJECT MATTER JURISDICTION, IN ANY STATE COURT LOCATED IN THE CITY AND COUNTY OF NEW YORK. BY EXECUTING AND DELIVERING THIS WAIVER, EACH CREDIT PARTY, FOR ITSELF AND IN CONNECTION WITH ITS PROPERTIES, IRREVOCABLY (A) ACCEPTS GENERALLY AND UNCONDITIONALLY THE EXCLUSIVE JURISDICTION AND VENUE OF SUCH COURTS (OTHER THAN WITH RESPECT TO ACTIONS BY ANY AGENT IN RESPECT OF RIGHTS UNDER ANY COLLATERAL DOCUMENTS GOVERNED BY LAWS OTHER THAN THE LAWS OF THE STATE OF NEW YORK OR WITH RESPECT TO ANY COLLATERAL SUBJECT THERETO); (B) WAIVES ANY DEFENSE OF FORUM NON CONVENIENS; (C) AGREES THAT SERVICE OF ALL PROCESS IN ANY SUCH PROCEEDING IN ANY SUCH COURT MAY BE MADE BY REGISTERED OR CERTIFIED MAIL, RETURN RECEIPT REQUESTED, TO THE APPLICABLE CREDIT PARTY AT ITS ADDRESS PROVIDED IN ACCORDANCE WITH SECTION 10.1 OF THE CREDIT AGREEMENT; (D) AGREES THAT SERVICE AS PROVIDED IN CLAUSE (C) ABOVE IS SUFFICIENT TO CONFER PERSONAL JURISDICTION OVER THE APPLICABLE CREDIT PARTY IN ANY SUCH PROCEEDING IN ANY SUCH COURT, AND OTHERWISE CONSTITUTES EFFECTIVE AND BINDING SERVICE IN EVERY RESPECT; AND (E) AGREES THAT AGENTS AND LENDERS RETAIN THE RIGHT TO SERVE PROCESS IN ANY OTHER MANNER PERMITTED BY LAW OR TO BRING PROCEEDINGS AGAINST ANY CREDIT PARTY IN THE COURTS OF ANY OTHER JURISDICTION IN CONNECTION WITH THE EXERCISE OF ANY RIGHTS UNDER ANY COLLATERAL DOCUMENT OR THE ENFORCEMENT OF ANY JUDGMENT.

v. **WAIVER OF JURY TRIAL.** EACH OF THE PARTIES HERETO HEREBY WAIVES ITS RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING HEREUNDER OR UNDER ANY OF THE OTHER CREDIT DOCUMENTS OR ANY DEALINGS BETWEEN THEM RELATING TO THE SUBJECT MATTER OF THIS LOAN TRANSACTION OR THE LENDER/BORROWER RELATIONSHIP THAT IS BEING ESTABLISHED. THE SCOPE OF THIS WAIVER IS INTENDED TO BE ALL-ENCOMPASSING OF ANY AND ALL DISPUTES THAT MAY BE FILED IN ANY COURT AND THAT RELATE TO THE SUBJECT MATTER OF THIS WAIVER, INCLUDING CONTRACT CLAIMS, TORT CLAIMS, BREACH OF DUTY CLAIMS AND ALL OTHER COMMON LAW AND STATUTORY CLAIMS. EACH PARTY HERETO ACKNOWLEDGES THAT THIS WAIVER IS A MATERIAL INDUCEMENT TO ENTER INTO A BUSINESS RELATIONSHIP, THAT EACH HAS ALREADY RELIED ON THIS WAIVER IN ENTERING INTO THIS WAIVER, AND THAT EACH WILL CONTINUE TO RELY ON THIS WAIVER IN ITS RELATED FUTURE DEALINGS. EACH PARTY HERETO FURTHER WARRANTS AND REPRESENTS THAT IT HAS REVIEWED THIS WAIVER WITH ITS LEGAL COUNSEL AND THAT IT KNOWINGLY AND VOLUNTARILY WAIVES ITS JURY TRIAL RIGHTS FOLLOWING

CONSULTATION WITH LEGAL COUNSEL. THIS WAIVER IS IRREVOCABLE, MEANING THAT IT MAY NOT BE MODIFIED EITHER ORALLY OR IN WRITING (OTHER THAN BY A MUTUAL WRITTEN WAIVER SPECIFICALLY REFERRING TO THIS CLAUSE (E) AND EXECUTED BY EACH OF THE PARTIES HERETO), AND THIS WAIVER SHALL APPLY TO ANY SUBSEQUENT WAIVERS, AMENDMENTS, RENEWALS, SUPPLEMENTS OR MODIFICATIONS HERETO OR ANY OF THE OTHER CREDIT DOCUMENTS OR TO ANY OTHER DOCUMENTS OR AGREEMENTS RELATING TO THE LIMITED AND SPECIFIC WAIVERS HEREUNDER. IN THE EVENT OF LITIGATION, THIS WAIVER MAY BE FILED AS A WRITTEN CONSENT TO A TRIAL BY THE COURT.

vi. **Severability.** In case any provision in or obligation hereunder or under any other Credit Document shall be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining provisions or obligations, or of such provision or obligation in any other jurisdiction, shall not in any way be affected or impaired thereby.

vii. **Counterparts.** This Waiver may be executed in any number of counterparts, each of which when so executed and delivered shall be deemed an original, but all such counterparts together shall constitute but one and the same instrument. Delivery of an executed counterpart of a signature page of this Waiver by facsimile or in electronic format (i.e., "pdf" or "tif") shall be effective as delivery of a manually executed counterpart of this Waiver.

viii. **Headings.** Section headings herein are included herein for convenience of reference only and shall not constitute a part hereof for any other purpose or be given any substantive effect.

ix. **Administrative Agent.** By its execution and delivery of this Waiver, the Supermajority Lenders hereby authorize, direct and instruct Administrative Agent to execute and deliver this Waiver, and it is understood that Administrative Agent shall conclusively rely on the Supermajority Lenders' authorization, direction and instruction in connection with its execution and delivery of this Waiver pursuant to Section 10.5 of the Credit Agreement.

[Remainder of this page intentionally left blank]

IN WITNESS WHEREOF, the parties hereto have caused this Waiver to be duly executed by their respective authorized officers as of the day and year first above written.

BORROWER:

J. C. PENNEY CORPORATION, INC.,
a Delaware corporation

By: /s/ Bill Wafford
Name: Bill Wafford
Title: Chief Financial Officer

[Signature Page to Limited and Specific Waiver]

HOLDINGS:

J. C. PENNEY COMPANY, INC.,
a Delaware corporation

By: /s/ Bill Wafford
Name: Bill Wafford
Title: Chief Financial Officer

[Signature Page to Limited and Specific Waiver]

GUARANTORS:

J. C. PENNEY PROPERTIES, LLC
a Delaware limited liability company

By: /s/ Dawn Wolverton

Name: Dawn Wolverton

Title: Assistant Secretary

J. C. PENNEY PURCHASING CORPORATION
a New York Corporation

By: /s/ Dawn Wolverton

Name: Dawn Wolverton

Title: Assistant Secretary

JCP Real Estate Holdings, LLC
a Delaware limited liability company

By: /s/ Dawn Wolverton

Name: Dawn Wolverton

Title: Assistant Secretary

[Signature Page to Limited and Specific Waiver]

GUARANTORS: (cont...)

FUTURE SOURCE LLC,
a New York limited liability company
J. C. PENNEY DIRECT MARKETING SERVICES LLC,
a Delaware limited liability company
J. C. PENNEY EXPORT MERCHANDISING CORPORATION,
a Delaware corporation
J. C. PENNEY INTERNATIONAL, INC.,
a Delaware corporation
JCP CONSTRUCTION SERVICES, INC.,
a Delaware corporation
JCP MEDIA, INC.,
a Delaware corporation
JCP NEW JERSEY, LLC,
a Delaware limited liability company
JCP PROCUREMENT, INC.,
a Delaware corporation
JCP REALTY, LLC,
a Delaware limited liability company
JCP TELECOM SYSTEMS, INC.,
a Delaware corporation
JCPENNEY PUERTO RICO, INC.,
a Puerto Rico corporation
JCPENNEY SERVICES, LLC,
a Delaware limited liability company
JCPSSC, INC.,
a Delaware corporation
By: /s/ Bill Wafford
Name: Bill Wafford
Title: Chief Financial Officer

[Signature Page to Limited and Specific Waiver]

GLAS USA LLC, as Administrative Agent

By: /s/ Yana Kisenko
Name: Yana Kisenko
Title: Vice President

[Signature Page to Limited and Specific Waiver]

LENDERS:

By Brigade Capital Management, LP as Investment Manager, on Behalf of its
Various Funds and Accounts [DIP LENDER]

By: /s/ Patrick Criscillo
Name: Patrick Criscillo
Title: Chief Financial Officer

[Signature Page to Limited and Specific Waiver]

LENDERS:

H/2 CAPITAL PARTNERS LLC

By: /s/ Ashvin Rao

Name: Ashvin Rao

Title: Authorized Signatory

[Signature Page to Limited and Specific Waiver]

LENDERS:

Sculptor GC Opportunities Master Fund, Ltd.

By: Sculptor Capital LP, its investment manager

By: Sculptor Capital Holding Corporation, its General Partner

By: /s/ Wayne Cohen

Name: Wayne Cohen

Title: President and Chief Operating Officer

[Signature Page to Limited and Specific Waiver]

LENDERS:

Sculptor SC II, LP

By: Sculptor Capital II LP, its investment manager

By: Sculptor Capital Holding II LLC, its General Partner By: Sculptor Capital LP, its Member

By: Sculptor Capital Holding Corporation, its General Partner

By: /s/ Wayne Cohen

Name: Wayne Cohen

Title: President and Chief Operating Officer

[Signature Page to Limited and Specific Waiver]

LENDERS:

Sculptor Credit Opportunities Master Fund, Ltd.

By: Sculptor Capital LP, its investment manager

By: Sculptor Capital Holding Corporation, its General Partner

By: /s/ Wayne Cohen

Name: Wayne Cohen

Title: President and Chief Operating Officer

[Signature Page to Limited and Specific Waiver]

LENDERS:

Sculptor Enhanced Master Fund, Ltd.

By: Sculptor Capital LP, its investment manager

By: Sculptor Capital Holding Corporation, its General Partner

By: /s/ Wayne Cohen

Name: Wayne Cohen

Title: President and Chief Operating Officer

[Signature Page to Limited and Specific Waiver]

LENDERS:

Sculptor Master Fund, Ltd.

By: Sculptor Capital LP, its investment manager

By: Sculptor Capital Holding Corporation, its General Partner

By: /s/ Wayne Cohen

Name: Wayne Cohen

Title: President and Chief Operating Officer

[Signature Page to Limited and Specific Waiver]

LENDERS:

SPCP Access Holdings, LLC

By: /s/ Stacey Hatch

Name: Stacey Hatch

Title: Authorized Signatory

[Signature Page to Limited and Specific Waiver]

LENDERS:

SPCP Institutional Group, LLC

By: /s/ Stacey Hatch
Name: Stacey Hatch
Title: Authorized Signatory

[Signature Page to Limited and Specific Waiver]

LENDERS:

SPCP Group, LLC

By: /s/ Stacey Hatch
Name: Stacey Hatch
Title: Authorized Signatory

[Signature Page to Limited and Specific Waiver]

SIXTH STREET SPECIALTY LENDING, INC., as a Lender

By: /s/ Joshua Easterly
Name: Joshua Easterly
Title: Chief Executive Officer

[Signature Page to Limited and Specific Waiver]

REDWOOD IV FINANCE 3, LLC, as a Lender

By: /s/ Joshua Peck
Name: Joshua Peck
Title: Vice President

[Signature Page to Limited and Specific Waiver]

TAO FINANCE 3-A, LLC, as a Lender

By: /s/ Joshua Peck
Name: Joshua Peck
Title: Vice President

[Signature Page to Limited and Specific Waiver]

KKR Credit Advisors US LLC, on behalf of the accounts and funds listed below, as
Lenders

KKR CLO 10 Ltd.

KKR CLO 11 Ltd.

KKR CLO 12 Ltd.

KKR CLO 13 Ltd.

KKR CLO 14 Ltd.

KKR CLO 15 Ltd.

KKR CLO 16 Ltd.

KKR CLO 17 Ltd.

KKR CLO 18 Ltd.

KKR CLO 19 Ltd.

KKR CLO 20 Ltd.

KKR CLO 21 Ltd.

KKR CLO 22 Ltd.

KKR CLO 23 Ltd.

KKR CLO 24 Ltd.

KKR CLO 25 Ltd.

KKR CLO 27 Ltd.

KKR CLO 28 Ltd.

KKR CLO 9 Ltd.

KKR DAF Syndicated Loan and High Yield Fund DAC

KKR Financial CLO 2013-1, Ltd.

KKR Senior Floating Rate Income Fund

Oregon Public Employees Retirement Fund

By: /s/ Jeffrey M. Smith

Name: Jeffrey M. Smith

Title: Authorized Signatory

[Signature Page to Limited and Specific Waiver]

LIMITED AND SPECIFIC WAIVER

This LIMITED AND SPECIFIC WAIVER, dated as of July 31, 2020 (this “Waiver”), to SUPERPRIORITY SENIOR SECURED DEBTOR-IN-POSSESSION CREDIT AND GUARANTY AGREEMENT, dated as of June 8, 2020 (as amended, restated, amended and restated, supplemented, waived or otherwise modified from time to time prior to the effectiveness of this Waiver, the “Credit Agreement”), is entered into by and among J. C. PENNEY CORPORATION, INC., a Delaware corporation, as debtor and debtor-in-possession (“Borrower”), J. C. PENNEY COMPANY, INC., a Delaware corporation, as debtor and debtor-in-possession (“Holdings”), certain SUBSIDIARIES OF HOLDINGS, each as debtors and debtors-in-possession, as Guarantors, the Lenders party hereto constituting the Supermajority Lenders, the other Credit Parties, and GLAS USA LLC, a limited liability company organized and existing under the laws of the State of New Jersey, as administrative agent for the Lenders (in such capacity, together with its successors and assigns in such capacity, “Administrative Agent”).

RECITALS

WHEREAS, on the terms and subject to the conditions set forth in this Waiver and pursuant to and in accordance with the terms and conditions set forth in Section 10.5 of the Credit Agreement, (a) Borrower has requested that the Lenders party hereto constituting the Supermajority Lenders hereby agree to the Limited and Specific Waiver (as defined below), (b) the Lenders party hereto constituting the Supermajority Lenders are willing to agree to the Limited and Specific Waiver and (c) the Lenders party hereto constituting the Supermajority Lenders have authorized, directed and instructed Administrative Agent to execute and deliver this Waiver; and

WHEREAS, as a result of the execution and delivery of this Waiver, the parties hereto hereby agree that no Toggle Event has occurred as of the date of this Waiver.

NOW, THEREFORE, in consideration of the Limited and Specific Waiver contained in this Waiver and other good and valuable consideration, the sufficiency and receipt of which are hereby acknowledged, the parties hereto hereby agree as follows:

a. ***Defined Terms; Interpretation; Etc.*** Capitalized terms used and not defined in this Waiver shall have the meanings assigned to such terms in the Credit Agreement.

b. ***Limited and Specific Waiver.*** On the Effective Date (as defined below), on the terms and subject to the conditions set forth in this Waiver and pursuant to and in accordance with the terms and conditions set forth in Section 10.5 of the Credit Agreement, the parties hereto (which, for the avoidance of doubt, includes the Supermajority Lenders) hereby waive the occurrence of a Toggle Event under clause (a) of the definition thereof due to the failure of the Supermajority Lenders to approve the Business Plan by July 15, 2020 (it being understood and agreed that no Toggle Event shall be deemed to have occurred) so long as the Supermajority Lenders approve the Business Plan at or prior to 11:59 p.m., New York City time, on August 7, 2020; provided that the foregoing waiver (the “Limited and Specific Waiver”) shall only be in effect to the extent that the following conditions subsequent and covenants are and remain satisfied in accordance with their terms (it being understood and agreed that a Toggle Event shall be deemed to have immediately occurred to the extent that the following conditions subsequent and covenants are not satisfied in accordance with their terms):

(a) receipt of updated bids for opco by 12:00 p.m. (noon), New York City time, on August 3, 2020, which for the avoidance of doubt will include a comprehensive markup (or agreement) to the master lease term sheet, the distribution center lease term sheet and opco TLB term sheet;

(b) all funds from the Final Loan shall remain in the Final Loan Escrow Account through (i) 11:59 p.m., New York City time, on August 4, 2020 if no winning bid for opco is selected, (ii) 11:59 p.m., New York City time, on August 7, 2020 if a winning opco bidder is selected, but no final master lease term sheet, distribution center lease term sheet and opco TLB term sheet is agreed and (iii) 11:59 p.m., New York City time, on August 30, 2020 if a winning opco bidder is selected and a master lease term sheet, distribution center lease term sheet and opco TLB term sheet is agreed;

(c) review of the appropriate downsizing of the \$50,000,000 amount set forth in Section 2.1(d)(ii) of the Credit Agreement;

(d) (i) the selection of the winning bid for opco by 11:59 p.m., New York City time, on August 4, 2020 (ii) the finalization of an acceptable master lease term sheet, distribution center lease term sheet and opco TLB term sheet with the winning bidder by 11:59 p.m., New York City time, on August 7, 2020, (iii) the finalization of an acceptable asset purchase agreement with the winning bidder by 11:59 p.m., New York City time, on August 30, 2020 and (iv) the finalization of an acceptable master lease agreement, an acceptable distribution center lease agreement and an acceptable opco TLB credit agreement with the winning bidder by 11:59 p.m., New York City time, on August 30, 2020;

(e) satisfaction with the progress of the negotiations with the winning bidder for opco (and, for the avoidance of doubt, this Waiver shall expire upon any termination of the negotiations or the determination that negotiations are not proceeding in good faith); and

(f) continued updates to and involvement of the Lenders regarding the process for the consummation of a sale of all or substantially all of the assets of the Credit Parties pursuant to section 363 of the Bankruptcy Code.

a. ***Conditions Precedent to Effectiveness.*** This Waiver shall become effective solely upon the satisfaction (or waiver in accordance with the terms and conditions of Section 10.5 of the Credit Agreement) of the following conditions precedent (upon satisfaction of such conditions, such date being referred to in this Waiver as the “Effective Date”):

1. Administrative Agent shall have received a counterpart signature page of this Waiver duly executed by each of the Credit Parties and the Lenders party hereto constituting the Supermajority Lenders;

2. as of the Effective Date and after giving effect to the Limited and Specific Waiver, the representations and warranties contained in the Credit Agreement and in the other Credit Documents shall be true and correct in all material respects on and as of the Effective Date to the same extent as though made on and as of that date, except to the extent such representations and warranties specifically relate to an earlier date, in which case such representations and warranties shall have been true and correct in all material respects on and as of such earlier date; provided that, in each case, such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality in the text thereof;

3. as of the Effective Date and after giving effect to the Limited and Specific Waiver, no Default or Event of Default shall have occurred and be continuing or would immediately result from the Limited and Specific Waiver;

4. the RSA shall have been revised to reflect all of the Limited and Specific Waiver set forth in this Waiver; and

5. each confidentiality agreement between the Borrower and any Lender shall have been revised to reflect all of the Limited and Specific Waiver set forth in this Waiver.

b. **Representations and Warranties.** In order to induce Administrative Agent and the Lenders party hereto to enter into this Waiver, each Credit Party represents and warrants to Administrative Agent and the Lender party hereto, that the following statements are true, complete and correct:

i. as of the Effective Date after giving effect to the Limited and Specific Waiver, the representations and warranties contained in the Credit Agreement and in the other Credit Documents are true and correct in all material respects on and as of the Effective Date to the same extent as though made on and as of that date, except to the extent such representations and warranties specifically relate to an earlier date, in which case such representations and warranties are true and correct in all material respects on and as of such earlier date; provided that, in each case, such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality in the text thereof; and

ii. as of the Effective Date after giving effect to the Limited and Specific Waiver, no Default or Event of Default has occurred and is continuing or would immediately result from the Limited and Specific Waiver.

c. **Reaffirmation of Guarantees and Security Interests.** Each Credit Party hereby acknowledges its receipt of a copy of this Waiver and its review of the terms and conditions of this Waiver and consents to the terms and conditions of this Waiver, including the Limited and Specific Waiver. Each Credit Party hereby (a) affirms and confirms its guarantees, pledges, grants and other undertakings under the Credit Agreement and the other Credit Documents to which it is a party and (b) agrees that (i) each Credit Document to which it is a party shall continue to be in full force and effect and (ii) all guarantees, pledges, grants and other undertakings thereunder shall continue to be in full force and effect and shall accrue to the benefit of the Secured Parties.

d. **Expenses; Indemnity.** Each of Sections 10.2 and 10.3 of the Credit Agreement is hereby incorporated, *mutatis mutandis*, by reference as if such Sections were set forth in full in this Waiver.

e. **Effect on the Credit Agreement.**

i. Except as specifically waived by this Waiver, the Credit Agreement and the other Credit Documents shall remain in full force and effect and are hereby ratified and confirmed.

ii. Except as specifically waived by this Waiver, the execution, delivery and performance of this Waiver shall not constitute a waiver of any provision of, or operate as a waiver of any right, power or remedy of any Agent or Lender under any Credit Document.

iii. The parties hereto expressly acknowledge that it is not their intention that this Waiver or any of the other Credit Documents executed or delivered pursuant hereto constitute a novation of any of the obligations, covenants or agreements contained in the Credit Agreement or any other Credit Document, but a limited and specific waiver thereof pursuant to the terms and conditions contained herein.

iv. From and after the Effective Date, each reference in the Credit Agreement to “this Agreement”, “hereunder”, “hereof”, “herein” or words of like import referring to the Credit Agreement, and each reference in the other Credit Documents to the “Credit Agreement”, “thereunder”, “thereof” or words of like import referring to the Credit Agreement shall mean and be a reference to the Credit Agreement as specifically waived by this Waiver.

v. This Waiver is, and shall be deemed to be, a Credit Document.

f. **Miscellaneous.**

i. **Amendment, Modification and Waiver.** This Waiver may not be amended or modified, nor may any provision of this Waiver be waived, except pursuant to the terms and conditions of Section 10.5 of the Credit Agreement.

ii. **Entire Agreement.** This Waiver, the Credit Agreement and the other Credit Documents constitute the entire agreement among the parties with respect to the subject matter of this Waiver and thereof and supersede all other prior agreements and understandings, both written and verbal, among the parties or any of them with respect to the subject matter of this Waiver.

iii. **Applicable Law.** THIS WAIVER AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER (INCLUDING, WITHOUT LIMITATION, ANY CLAIMS SOUNDING IN CONTRACT LAW OR TORT LAW ARISING OUT OF THE SUBJECT MATTER HEREOF AND ANY DETERMINATIONS WITH RESPECT TO POST-JUDGMENT INTEREST) SHALL BE GOVERNED BY, AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK WITHOUT REGARD TO CONFLICT OF LAWS PRINCIPLES THEREOF THAT WOULD RESULT IN THE APPLICATION OF ANY LAW OTHER THAN THE LAW OF THE STATE OF NEW YORK AND EXCEPT TO THE EXTENT GOVERNED OR SUPERSEDED BY THE BANKRUPTCY CODE.

iv. **Consent to Jurisdiction.** SUBJECT TO CLAUSE (E) OF THE FOLLOWING SENTENCE, ALL JUDICIAL PROCEEDINGS BROUGHT AGAINST ANY PARTY ARISING OUT OF OR RELATING HERETO OR ANY OTHER CREDIT DOCUMENTS, OR ANY OF THE OBLIGATIONS, SHALL BE BROUGHT IN THE BANKRUPTCY COURT, OR IF THE BANKRUPTCY COURT DOES NOT HAVE (OR ABSTAINS FROM) JURISDICTION, ANY FEDERAL COURT OF THE UNITED STATES OF AMERICA SITTING IN THE BOROUGH OF MANHATTAN OR, IF THAT COURT DOES NOT HAVE SUBJECT MATTER JURISDICTION, IN ANY STATE COURT LOCATED IN THE CITY AND COUNTY OF NEW YORK. BY EXECUTING AND DELIVERING THIS WAIVER, EACH CREDIT PARTY, FOR ITSELF AND IN CONNECTION WITH ITS PROPERTIES, IRREVOCABLY (A) ACCEPTS GENERALLY AND UNCONDITIONALLY THE EXCLUSIVE JURISDICTION AND VENUE OF SUCH COURTS (OTHER THAN WITH RESPECT TO ACTIONS BY ANY AGENT IN RESPECT OF RIGHTS UNDER ANY COLLATERAL DOCUMENTS GOVERNED BY LAWS OTHER THAN THE LAWS OF THE STATE OF NEW YORK OR WITH RESPECT TO ANY COLLATERAL SUBJECT THERETO); (B) WAIVES ANY DEFENSE OF FORUM NON CONVENIENS; (C) AGREES THAT SERVICE OF ALL PROCESS IN ANY SUCH PROCEEDING IN ANY SUCH COURT MAY BE MADE BY REGISTERED OR CERTIFIED MAIL, RETURN RECEIPT REQUESTED, TO THE APPLICABLE CREDIT PARTY AT ITS ADDRESS PROVIDED IN ACCORDANCE WITH SECTION 10.1 OF THE CREDIT AGREEMENT; (D) AGREES THAT SERVICE AS PROVIDED IN CLAUSE (C) ABOVE IS SUFFICIENT TO CONFER PERSONAL JURISDICTION OVER THE APPLICABLE CREDIT PARTY IN ANY SUCH PROCEEDING IN ANY SUCH COURT, AND OTHERWISE CONSTITUTES EFFECTIVE AND BINDING SERVICE IN EVERY RESPECT; AND (E) AGREES THAT AGENTS AND LENDERS RETAIN THE RIGHT TO SERVE PROCESS IN ANY OTHER MANNER PERMITTED BY LAW OR TO BRING PROCEEDINGS AGAINST ANY CREDIT PARTY IN THE COURTS OF ANY OTHER JURISDICTION IN CONNECTION WITH THE EXERCISE OF ANY RIGHTS UNDER ANY COLLATERAL DOCUMENT OR THE ENFORCEMENT OF ANY JUDGMENT.

v. **WAIVER OF JURY TRIAL.** EACH OF THE PARTIES HERETO HEREBY WAIVES ITS RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING HEREUNDER OR UNDER ANY OF THE OTHER CREDIT DOCUMENTS OR ANY DEALINGS BETWEEN THEM RELATING TO THE SUBJECT MATTER OF THIS LOAN

TRANSACTION OR THE LENDER/BORROWER RELATIONSHIP THAT IS BEING ESTABLISHED. THE SCOPE OF THIS WAIVER IS INTENDED TO BE ALL-ENCOMPASSING OF ANY AND ALL DISPUTES THAT MAY BE FILED IN ANY COURT AND THAT RELATE TO THE SUBJECT MATTER OF THIS WAIVER, INCLUDING CONTRACT CLAIMS, TORT CLAIMS, BREACH OF DUTY CLAIMS AND ALL OTHER COMMON LAW AND STATUTORY CLAIMS. EACH PARTY HERETO ACKNOWLEDGES THAT THIS WAIVER IS A MATERIAL INDUCEMENT TO ENTER INTO A BUSINESS RELATIONSHIP, THAT EACH HAS ALREADY RELIED ON THIS WAIVER IN ENTERING INTO THIS WAIVER, AND THAT EACH WILL CONTINUE TO RELY ON THIS WAIVER IN ITS RELATED FUTURE DEALINGS. EACH PARTY HERETO FURTHER WARRANTS AND REPRESENTS THAT IT HAS REVIEWED THIS WAIVER WITH ITS LEGAL COUNSEL AND THAT IT KNOWINGLY AND VOLUNTARILY WAIVES ITS JURY TRIAL RIGHTS FOLLOWING CONSULTATION WITH LEGAL COUNSEL. THIS WAIVER IS IRREVOCABLE, MEANING THAT IT MAY NOT BE MODIFIED EITHER ORALLY OR IN WRITING (OTHER THAN BY A MUTUAL WRITTEN WAIVER SPECIFICALLY REFERRING TO THIS CLAUSE (E) AND EXECUTED BY EACH OF THE PARTIES HERETO), AND THIS WAIVER SHALL APPLY TO ANY SUBSEQUENT WAIVERS, AMENDMENTS, RENEWALS, SUPPLEMENTS OR MODIFICATIONS HERETO OR ANY OF THE OTHER CREDIT DOCUMENTS OR TO ANY OTHER DOCUMENTS OR AGREEMENTS RELATING TO THE LIMITED AND SPECIFIC WAIVER HEREUNDER. IN THE EVENT OF LITIGATION, THIS WAIVER MAY BE FILED AS A WRITTEN CONSENT TO A TRIAL BY THE COURT.

vi. **Severability.** In case any provision in or obligation hereunder or under any other Credit Document shall be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining provisions or obligations, or of such provision or obligation in any other jurisdiction, shall not in any way be affected or impaired thereby.

vii. **Counterparts.** This Waiver may be executed in any number of counterparts, each of which when so executed and delivered shall be deemed an original, but all such counterparts together shall constitute but one and the same instrument. Delivery of an executed counterpart of a signature page of this Waiver by facsimile or in electronic format (i.e., "pdf" or "tif") shall be effective as delivery of a manually executed counterpart of this Waiver.

viii. **Headings.** Section headings herein are included herein for convenience of reference only and shall not constitute a part hereof for any other purpose or be given any substantive effect.

ix. **Administrative Agent.** By its execution and delivery of this Waiver, the Supermajority Lenders hereby authorize, direct and instruct Administrative Agent to execute and deliver this Waiver, and it is understood that Administrative Agent shall conclusively rely on the Supermajority Lenders' authorization, direction and instruction in connection with its execution and delivery of this Waiver pursuant to Section 10.5 of the Credit Agreement.

[Remainder of this page intentionally left blank]

GUARANTORS:

J. C. PENNEY PROPERTIES, LLC

a Delaware limited liability company

By: /s/ Dawn Wolverton

Name: Dawn Wolverton

Title: Assistant Secretary

J. C. PENNEY PURCHASING CORPORATION

a New York Corporation

By: /s/ Dawn Wolverton

Name: Dawn Wolverton

Title: Assistant Secretary

JCP Real Estate Holdings, LLC

a Delaware limited liability company

By: /s/ Dawn Wolverton

Name: Dawn Wolverton

Title: Assistant Secretary

[Signature Page to Limited and Specific Waiver]

GUARANTORS: (cont...)

FUTURE SOURCE LLC,
a New York limited liability company
J. C. PENNEY DIRECT MARKETING SERVICES LLC,
a Delaware limited liability company
J. C. PENNEY EXPORT MERCHANDISING CORPORATION,
a Delaware corporation
J. C. PENNEY INTERNATIONAL, INC.,
a Delaware corporation
JCP CONSTRUCTION SERVICES, INC.,
a Delaware corporation
JCP MEDIA, INC.,
a Delaware corporation
JCP NEW JERSEY, LLC,
a Delaware limited liability company
JCP PROCUREMENT, INC.,
a Delaware corporation
JCP REALTY, LLC,
a Delaware limited liability company
JCP TELECOM SYSTEMS, INC.,
a Delaware corporation
JCPENNEY PUERTO RICO, INC.,
a Puerto Rico corporation
JCPENNEY SERVICES, LLC,
a Delaware limited liability company
JCPSSC, INC.,
a Delaware corporation
By: /s/ Bill Wafford
Name: Bill Wafford
Title: Chief Financial Officer

[Signature Page to Limited and Specific Waiver]

GLAS USA LLC, as Administrative Agent

By: /s/ Yana Kisenko
Name: Yana Kisenko
Title: Vice President

[Signature Page to Limited and Specific Waiver]

LENDERS:

By Brigade Capital Management, LP as Investment Manager, on Behalf of its
Various Funds and Accounts [DIP LENDER]

By: /s/ Patrick Criscillo
Name: Patrick Criscillo
Title: Chief Financial Officer

[Signature Page to Limited and Specific Waiver]

LENDERS:

H/2 CAPITAL PARTNERS LLC

By: /s/ Ashvin Rao

Name: Ashvin Rao

Title: Authorized Signatory

[Signature Page to Limited and Specific Waiver]

LENDERS:

Sculptor GC Opportunities Master Fund, Ltd.

By: Sculptor Capital LP, its investment manager

By: Sculptor Capital Holding Corporation, its General Partner

By: /s/ Wayne Cohen

Name: Wayne Cohen

Title: President and Chief Operating Officer

[Signature Page to Limited and Specific Waiver]

LENDERS:

Sculptor SC II, LP

By: Sculptor Capital II LP, its investment manager

By: Sculptor Capital Holding II LLC, its General Partner By: Sculptor Capital LP, its Member

By: Sculptor Capital Holding Corporation, its General Partner

By: /s/ Wayne Cohen

Name: Wayne Cohen

Title: President and Chief Operating Officer

[Signature Page to Limited and Specific Waiver]

LENDERS:

Sculptor Credit Opportunities Master Fund, Ltd.

By: Sculptor Capital LP, its investment manager

By: Sculptor Capital Holding Corporation, its General Partner

By: /s/ Wayne Cohen

Name: Wayne Cohen

Title: President and Chief Operating Officer

[Signature Page to Limited and Specific Waiver]

LENDERS:

Sculptor Enhanced Master Fund, Ltd.

By: Sculptor Capital LP, its investment manager

By: Sculptor Capital Holding Corporation, its General Partner

By: /s/ Wayne Cohen

Name: Wayne Cohen

Title: President and Chief Operating Officer

[Signature Page to Limited and Specific Waiver]

LENDERS:

Sculptor Master Fund, Ltd.

By: Sculptor Capital LP, its investment manager

By: Sculptor Capital Holding Corporation, its General Partner

By: /s/ Wayne Cohen

Name: Wayne Cohen

Title: President and Chief Operating Officer

[Signature Page to Limited and Specific Waiver]

LENDERS:

SPCP Access Holdings, LLC

By: /s/ Stacey Hatch

Name: Stacey Hatch

Title: Authorized Signatory

[Signature Page to Limited and Specific Waiver]

LENDERS:

SPCP Institutional Group, LLC

By: /s/ Stacey Hatch
Name: Stacey Hatch
Title: Authorized Signatory

[Signature Page to Limited and Specific Waiver]

LENDERS:

SPCP Group, LLC

By: /s/ Stacey Hatch
Name: Stacey Hatch
Title: Authorized Signatory

[Signature Page to Limited and Specific Waiver]

SIXTH STREET SPECIALTY LENDING, INC., as a Lender

By: /s/ Joshua Easterly
Name: Joshua Easterly
Title: Chief Executive Officer

[Signature Page to Limited and Specific Waiver]

REDWOOD IV FINANCE 3, LLC, as a Lender

By: /s/ Joshua Peck
Name: Joshua Peck
Title: Vice President

[Signature Page to Limited and Specific Waiver]

TAO FINANCE 3-A, LLC, as a Lender

By: /s/ Joshua Peck
Name: Joshua Peck
Title: Vice President

[Signature Page to Limited and Specific Waiver]

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: September 10, 2020

/s/ Jill Soltau

Jill Soltau

Chief Executive Officer

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: September 10, 2020

/s/ Bill Wafford

Bill Wafford

Executive Vice President, Chief Financial Officer

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

In connection with the Quarterly Report of J. C. Penney Company, Inc. (the "Company") on Form 10-Q for the period ended August 1, 2020 (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) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: September 10, 2020

/s/ Jill Soltau
Jill Soltau
Chief Executive Officer

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

In connection with the Quarterly Report of J. C. Penney Company, Inc. (the "Company") on Form 10-Q for the period ended August 1, 2020 (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: September 10, 2020

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