

J C PENNEY CO INC  
Form 10-K  
March 19, 2019  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-K  
(Mark  
One)

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

For the fiscal year ended February 2, 2019

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-15274

J. C.  
PENNEY  
COMPANY,  
INC.

(Exact name  
of registrant  
as specified  
in its charter)

Delaware 26-0037077

(State or

other

jurisdiction

of

incorporation

or

organization)

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

6501 Legacy Drive,  
Plano, Texas  
75024-3698

(Address of  
principal  
executive  
offices)

(Zip Code)

(972)

431-1000

(Registrant's  
telephone  
number,  
including  
area code)

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

Title of each class of Common Stock of 50 cents par value Preferred Stock Purchase Rights	Name of each exchange on which registered New York Stock Exchange New York Stock Exchange
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Securities registered pursuant to Section 12(g) of the Act:

None  
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes  No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

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

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common

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equity, as of the last business day of the registrant's most recently completed second fiscal quarter (August 4, 2018).  
\$747,082,556

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

316,351,556 shares of Common Stock of 50 cents par value, as of March 15, 2019.

DOCUMENTS INCORPORATED BY REFERENCE

Documents from which portions are incorporated by reference	Parts of the Form 10-K into which incorporated
J. C. Penney Company, Inc. 2019 Proxy Statement	Part III

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## PART I

## Item 1. Business

## Business Overview

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 new holding company assumed the name J. C. Penney Company, Inc. (Company). The holding company has no independent assets or operations, and no direct subsidiaries other than JCP. Common stock of the Company is publicly traded under the symbol “JCP” on the New York Stock Exchange. The Company is a co-obligor (or guarantor, as appropriate) regarding the payment of principal and interest on JCP’s outstanding debt securities. The guarantee by the Company of certain of JCP’s outstanding debt securities is full and unconditional. The holding company and its consolidated subsidiaries, including JCP, are collectively referred to in this Annual Report on Form 10-K as “we,” “us,” “our,” “ourselves,” “Company” or “JCPenney.”

Since our founding by James Cash Penney in 1902, we have grown to be a major retailer, operating 864 department stores in 49 states and Puerto Rico as of February 2, 2019. Our fiscal year ends on the Saturday closest to January 31. Unless otherwise stated, references to years in this report relate to fiscal years, rather than to calendar years. Fiscal year 2018 ended on February 2, 2019; fiscal year 2017 ended on February 3, 2018; and fiscal year 2016 ended on January 28, 2017. Fiscal years 2018 and 2016 consisted of 52 weeks and fiscal year 2017 consisted of 53 weeks.

Our business consists of selling merchandise and services to consumers through our department stores and our website at jcpenny.com, which utilizes fully optimized applications for desktop, mobile and tablet devices. Our department stores and website generally serve the same type of customers, our website offers virtually the same mix of merchandise as our store assortment plus other extended categories that are not offered in store, and our department stores generally accept returns from sales made in stores and via our website. We fulfill online customer purchases by direct shipment to the customer from our distribution facilities and stores or from our suppliers' warehouses and by in store customer pick up. We primarily sell family apparel and footwear, accessories, fine and fashion jewelry, beauty products through Sephora inside JCPenney, and home furnishings. In addition, our department stores provide our customers with services such as styling salon, optical, portrait photography, and custom decorating.

Based on how we categorized our divisions in 2018, our merchandise mix of total net sales over the last three years was as follows:

	2018	2017	2016
Women’s apparel	22 %	22 %	23 %
Men’s apparel and accessories	21 %	21 %	21 %
Home	14 %	15 %	13 %
Women’s accessories, including Sephora	13 %	13 %	13 %
Children’s, including toys	9 %	9 %	10 %
Footwear and handbags	8 %	8 %	8 %
Jewelry	7 %	6 %	6 %
Services and other	6 %	6 %	6 %
	100 %	100 %	100 %

## Competition and Seasonality

The business of selling merchandise and services is highly competitive. We are one of the largest department store and e-commerce retailers in the United States, and we have numerous competitors, as further described in Item 1A, Risk Factors. Many factors enter into the competition for the consumer’s patronage, including merchandise assortment,

advertising, price, quality, service, location, shipping times and cost, online and mobile user experience, reputation, credit availability, customer loyalty, availability of in-store services such as styling salon, optical, portrait photography and custom decorating, and the ability to offer personalized customer experiences. Our annual earnings depend to a great extent on the results of operations for the last quarter of the fiscal year, which includes the holiday season, when a significant portion of our sales and profits are recorded.

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### Trademarks

The JCPenney®, JCP®, Liz Claiborne®, Claiborne®, Okie Dokie®, Worthington®, a.n.a®, St. John's Bay®, The Original Arizona Jean Company®, Ambrielle®, Decree®, Stafford®, J. Ferrar®, Xersion®, Belle + Sky®, Total Girl®, monet®, JCPenney Home®, Studio JCP Home™, Home Collection by JCPenney™, Made for Life™, Sleep Home Expressions® and Cooks JCPenney Home® trademarks, as well as certain other trademarks, have been registered, or are the subject of pending trademark applications with the United States Patent and Trademark Office and with the registries of many foreign countries and/or are protected by common law. We consider our marks and the accompanying name recognition to be valuable to our business.

### Website Availability

We maintain an Internet website at [www.jcpenny.com](http://www.jcpenny.com) and make available free of charge through this website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all related amendments to those reports, as soon as reasonably practicable after the materials are electronically filed with or furnished to the Securities and Exchange Commission. In addition, our website provides press releases, access to webcasts of management presentations and other materials useful in evaluating our Company.

### Suppliers

We have a diversified supplier base, both domestic and foreign, and are not dependent to any significant degree on any single supplier. We purchase our merchandise from approximately 2,900 domestic and foreign suppliers, many of whom have done business with us for many years. In addition to our Plano, Texas home office, we, through our purchasing subsidiary, maintained buying and quality assurance offices in 9 foreign countries as of February 2, 2019.

### Employment

The Company and its consolidated subsidiaries employed approximately 95,000 full-time and part-time employees as of February 2, 2019.

### Environmental Matters

Environmental protection requirements did not have a material effect upon our operations during 2018. It is possible that compliance with such requirements (including any new requirements) would lengthen lead time in expansion or renovation plans and increase construction costs, and therefore operating costs, due in part to the expense and time required to conduct environmental and ecological studies and any required remediation.

As of February 2, 2019, we estimated our total potential environmental liabilities to be \$19 million and recorded our estimate in Other liabilities in the Consolidated Balance Sheet as of that date. 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 or liquidity.

### Executive Officers of the Registrant

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The following is a list, as of March 15, 2019, of the names and ages of the executive officers of J. C. Penney Company, Inc. and of the offices and other positions held by each such person with the Company. These officers hold identical positions with JCP. There is no family relationship between any of the named persons.

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Name	Offices and Other Positions Held With the Company	Age
Jill Soltau	Chief Executive Officer	52
Michael Fung	Interim Executive Vice President, Chief Financial Officer	68
Brynn L. Evanson	Executive Vice President, Human Resources	49
Michelle Wlazlo	Executive Vice President, Chief Merchant	51
Therace M. Risch	Executive Vice President, Chief Information Officer and Chief Digital Officer	46
Michael Robbins	Executive Vice President, Chief Stores and Supply Chain Officer	53
Andrew S. Drexler*	Senior Vice President, Chief Accounting Officer and Controller	48
Brandy L. Treadway	Senior Vice President, General Counsel	44

\* Mr. Drexler is leaving the Company, effective March 31, 2019.

Ms. Soltau has served as Chief Executive Officer and as a director of the Company since October 2018. Prior to joining the Company, she served as President and Chief Executive Officer of JoAnn Stores, Inc. (fabric and craft retailer) from 2015 to October 2018. From 2013 to 2015, she served as President of Shopko Stores (general merchandise retailer), with which she served in positions of increasing responsibility, including Executive Vice President, Chief Merchandising Officer from 2009 to 2013 and Senior Vice President, General Merchandise Manager, Apparel and Accessories from 2007 to 2009. Prior to that, she held positions of increasing responsibility with national and regional retailers including Sears Holdings, Kohl's Corporation and Carson Pirie Scott. Ms. Soltau currently serves as a director of Autozone, Inc. (automotive parts and accessories retailer).

Mr. Fung has served as Interim Executive Vice President, Chief Financial Officer since October 2018. From November 2016 to June 2017, Mr. Fung served as Interim Chief Financial Officer, Chief Operating Officer and Chief Financial Officer at The Neiman Marcus Group, LLC (department store retailer). Mr. Fung also served as the Interim Chief Financial Officer and Treasurer at 99 Cents Only Stores LLC (discount retailer) from June 2015 until November 2015 and served as its Interim Executive Vice President and Interim Chief Administrative Officer from January 2013 until September 2013. Mr. Fung was the Senior Vice President and Chief Financial Officer of Wal-Mart U.S. (retailer) from 2006 to 2012 with which he served in positions of increasing responsibility since 2001. Mr. Fung serves as a director of Franklin Covey Company (training and consulting services) and Floor and Décor (specialty flooring retailer). Mr. Fung served as a director of 99 Cents Only Stores from December 2013 to October 2018.

Ms. Evanson has served as Executive Vice President, Human Resources since 2013, and as a director of JCP since 2017. She previously served as Vice President, Compensation, Benefits and Talent Operations from 2010 to 2013 and Director of Compensation from 2009 to 2010. Prior to joining the Company, she worked at the Dayton Hudson Corporation (retailer) from 1991 to 2009 (renamed Target Corporation in 2000). Ms. Evanson began her career with Marshall Field's (department store retailer) where she advanced through positions in stores, finance, human resources and merchandising and moved to the Target stores division in 2000, ultimately serving as Director of Executive Compensation and Retirement Plans.

Ms. Risch has served as Executive Vice President, Chief Information Officer and Chief Digital Officer since 2018. Prior to that, she served as Executive Vice President, Chief Information Officer from 2015 to 2018. Prior to joining the Company, Ms. Risch served as Executive Vice President and Chief Information Officer of Country Financial (insurance and investment services) from 2014 to 2015. Prior to that, she spent 10 years at Target Corporation (retailer) in a variety of technology roles of increasing responsibility, including Vice President of Technology Delivery Services from 2012 to 2014 and Vice President, Business Technology Team from 2009 to 2012.

Mr. Robbins has served as Executive Vice President, Chief Stores and Supply Chain Officer since January 2019. Prior to that, he served as Executive Vice President, Supply Chain from 2016 to January 2019, and Senior Vice President, Supply Chain from 2015 to 2016. From 2012 to 2015, Mr. Robbins served as Senior Vice President, Global Supply Chain at Target Corporation (retailer), with which he served in positions of increasing responsibility since 2001, including Senior Vice President of Distribution Operations from 2010 to 2012, Vice President of Pharmacy from 2008

to 2010 and Regional Vice President of West Coast Distribution from 2006 to 2008.

Ms. Wlazlo has served as Executive Vice President, Chief Merchant since March 1, 2019. Prior to joining the Company, she served as Senior Vice President, Merchandising Apparel and Accessories for Target Corporation from 2016 to 2019. From 1996 to 2015, she served in positions of increasing responsibility with GAP, Inc. (retailer), including Senior Vice President, Global Merchandising GAP from 2013 to 2015, Senior Vice President, Merchandising, Old Navy from 2008 to 2013, and Vice President, Merchandising, GAP from 2005 to 2008.

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Mr. Drexler has served as Senior Vice President, Chief Accounting Officer and Controller since 2015. Prior to joining the Company, he served as Senior Vice President and Chief Financial Officer of Giant Eagle, Inc. (grocery retailer) from 2014 to 2015. He also served as Senior Vice President, Finance, and Corporate Controller for GNC Holdings, Inc. (health and nutrition retailer) from 2011 to 2014. Prior to that, Mr. Drexler spent 11 years at Walmart Inc. in roles of increasing responsibility, including Vice President of Finance for the information systems division from 2010 to 2011. Earlier in his career, he held a variety of roles with PricewaterhouseCoopers, LLP (accounting firm). Mr. Drexler is a certified public accountant.

Ms. Treadway has served as Senior Vice President, General Counsel since August 2017. She previously served as Vice President, interim General Counsel from June 2017 to August 2017, Vice President, Associate General Counsel from 2016 to June 2017, Assistant General Counsel from 2014 to 2016, Senior Managing Counsel from 2012 to 2014, and Senior Counsel from 2011 to 2012. Prior to joining the Company, Ms. Treadway was an associate at Weil, Gotshal & Manges, LLP (law firm) from 2002 to 2011.

Item 1A. Risk Factors

The following risk factors should be read carefully in connection with evaluating our business and the forward-looking information contained in this Annual Report on Form 10-K. Any of the following risks could materially adversely affect our business, operating results, financial condition and the actual outcome of matters as to which forward-looking statements are made in this Annual Report on Form 10-K.

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

As we position the Company for long-term growth, it may take longer than expected to achieve our objectives, and actual results may be materially less than planned. Our ability to improve our operating results depends upon a significant number of factors, some of which are beyond our control, including:

- customer response to our marketing and merchandise strategies;
- our ability to achieve profitable sales and to make adjustments in response to changing conditions;
- our ability to respond to competitive pressures in our industry;
- our ability to effectively manage inventory;
- the success of our omnichannel strategy;
- our ability to gather accurate and relevant data and effectively utilize that data in our strategic planning and decision making;
- our ability to benefit from investments in our stores;
- our ability to respond to any unanticipated changes in expected cash flows, liquidity and cash needs, including our ability to obtain any additional financing or other liquidity enhancing transactions, if and when needed;
- our ability to achieve positive cash flow;
- our ability to access an adequate and uninterrupted supply of merchandise from suppliers at expected levels and on acceptable terms;

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

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

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We operate in a highly competitive industry, which could adversely impact our sales and profitability.

The retail industry is highly competitive, with few barriers to entry. We compete with many other local, regional and national retailers for customers, employees, locations, merchandise, services and other important aspects of our business. Those competitors include other department stores, discounters, home furnishing stores, specialty retailers, wholesale clubs, direct-to-consumer businesses, including those on the Internet, and other forms of retail commerce. Some competitors are larger than JCPenney, and/or have greater financial resources available to them, and, as a result, may be able to devote greater resources to sourcing, promoting, selling their products, updating their store environment and updating their technology. Competition is characterized by many factors, including merchandise assortment, advertising, price, quality, service, location, reputation, shipping times and cost, online and mobile user experience, credit availability, customer loyalty, availability of in-store services, such as styling salon, optical, portrait photography and custom decorating, and the ability to offer personalized customer experiences. We have experienced, and anticipate that we will continue to experience for at least the foreseeable future, significant competition from our competitors. The performance of competitors as well as changes in their pricing and promotional policies, marketing activities, customer loyalty programs, new strategic partnerships, availability of in-store services, new store openings, store renovations, launches of Internet websites or mobile platforms, brand launches and other merchandise and operational strategies could cause us to have lower sales, lower merchandise margin and/or higher operating expenses such as marketing costs and other selling, general and administrative expenses, which in turn could have an adverse impact on our profitability.

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

Our sales and operating results depend in part on our ability to predict and respond to changes in fashion trends and customer preferences in a timely manner by consistently offering stylish, quality merchandise assortments at competitive prices. We continuously assess emerging styles and trends and focus on developing a merchandise assortment to meet customer preferences. There is no assurance that these efforts will be successful or that we will be able to satisfy constantly changing customer demands. To the extent our decisions regarding our merchandise differ from our customers' preferences, we may be faced with reduced sales and excess inventories for some products and/or missed opportunities for others. Any sustained failure to identify and respond to emerging trends in lifestyle and customer preferences and buying trends could have an adverse impact on our business. In addition, merchandise misjudgments may adversely impact the perception or reputation of our Company, which could result in declines in customer loyalty and vendor relationship issues, and ultimately have a material adverse effect on our business, financial condition and results of operations.

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



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

Maintaining and continually enhancing the value of our Company and our private brand merchandise is important to the success of our business. The value of our private brands is based in large part on the degree to which customers perceive and react to them. The value of our private brands could diminish significantly due to a number of factors, including customer perception that we have acted in an irresponsible manner in sourcing our private brand merchandise, adverse publicity about our private brand merchandise, our failure to maintain the quality of our private brand products, the failure of our private brand merchandise to deliver consistently good value to the customer, or the failure to protect the image associated with our private brands. The growing use of social and digital media by customers, us, and third parties increases the speed and extent that information or misinformation and opinions can be shared. Negative posts or comments about us, our private brands, or any of our merchandise on social or digital media could seriously damage our reputation. If we do not maintain the favorable perception of our Company and our private brand merchandise or we experience a reduction in the level of private brand sales, our business results could be negatively impacted.

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

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

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

Our profitability depends upon our ability to manage appropriate inventory levels and respond quickly to shifts in consumer demand patterns. We must properly execute our inventory management strategies by appropriately allocating merchandise among our stores and online, timely and efficiently distributing inventory to stores, maintaining an appropriate mix and level of inventory in stores and online, adjusting our merchandise mix between our private and exclusive brands and national brands, appropriately changing the allocation of floor space of stores among product categories to respond to customer demand and effectively managing pricing and markdowns. If we overestimate customer demand for our merchandise, we will likely need to record inventory markdowns and sell the excess inventory at clearance prices which would negatively impact our merchandise margins and operating results. If we underestimate customer demand for our merchandise, we may experience inventory shortages which may result in missed sales opportunities and have a negative impact on customer loyalty. In addition, although we have various processes and systems to help protect against loss or theft of our inventory, higher than expected levels of lost or stolen inventory (called "shrinkage") could result in write-offs and lost sales, which could adversely impact our

profitability.

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

As part of our normal operations, we and third-party service providers with whom we contract receive and maintain information about our customers (including credit/debit card information), our employees and other third parties. Confidential data must at all times be protected against security breaches or other unauthorized disclosure. We have, and require our third-party service providers to have, administrative, physical and technical safeguards and procedures in place to protect the security, confidentiality, integrity and availability of such information and to protect such information against unauthorized access, disclosure or acquisition. Despite our safeguards and security processes and procedures, there is no assurance that all of our systems and processes, or those of our third-party service providers, are free from vulnerability to security breaches, inadvertent data disclosure or acquisition by third parties. Further, because the methods used to obtain unauthorized access change

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frequently and may not be immediately detected, we may be unable to anticipate these methods or promptly implement safeguards.

Additionally, as the regulatory environment related to information security, data collection, and use and privacy becomes increasingly rigorous, with new and constantly changing requirements applicable to our business, compliance with those requirements could also result in additional costs. For example, California recently passed the California Consumer Privacy Act of 2018 (the “CCPA”), which goes into effect in January 2020 and provides broad rights to California consumers with respect to the collection and use of their information by businesses. The CCPA expands the privacy rights of California citizens and as a result, we may need to process enhancements and commit resources in support of compliance with California’s regulatory requirements. Any failure to adhere to the requirements of the CCPA and other evolving laws and regulations in this area, or to protect confidential data about our business or our customers, employees or other third parties, could result in financial penalties and legal liability and could materially damage our brand and reputation, as well as result in significant expenses and disruptions to our operations, and loss of customer confidence, any of which could have a material adverse impact on our business and results of operations. We could also be subject to government enforcement actions and private litigation as a result of any such failure.

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

Our results depend on the contributions of our employees, including our senior management team and other key employees. This depends to a great extent on our ability to retain, attract and motivate talented employees throughout the organization, many of whom, particularly in the stores, are in entry level or part-time positions, which have historically had high rates of turnover. We currently operate with significantly fewer individuals than we have in the past who have assumed additional duties and responsibilities, which could have an adverse impact on our operating performance and efficiency. Negative media reports regarding the Company or the retail industry in general, as well as uncertainty due to store closings, could also have an adverse impact on our ability to attract, retain and motivate our employees. If we are unable to retain, attract and motivate talented employees with the appropriate skill sets, we may not achieve our objectives and our results of operations could be adversely impacted. Our ability to meet our changing labor needs while controlling our costs is also subject to external factors such as unemployment levels, competing wages, potential union organizing efforts and government regulation. An inability to provide wages and/or benefits that are competitive within the markets in which we operate could adversely affect our ability to retain and attract employees. In addition, the loss of one or more of our key personnel or the inability to effectively identify a suitable successor to a key role in our senior management could have a material adverse effect on our business.

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

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

reputation and operating results may be adversely affected.

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

We sell merchandise over the Internet through our website, [www.jcpenney.com](http://www.jcpenney.com), and through mobile applications for smart phones and tablets. Our Internet operations are subject to numerous risks, including rapid technological change and the implementation of new systems and platforms; liability for online and mobile content; violations of state or federal laws, including those relating to online and mobile privacy and intellectual property rights; credit card fraud; problems associated with the operation, security and availability of our website, mobile applications and related support systems; computer malware; telecommunications failures; electronic break-ins and similar disruptions; and the allocation of inventory between our online operations and department stores. The failure of our website or mobile applications to perform as expected could result

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in disruptions and costs to our operations and make it more difficult for customers to purchase merchandise online. In addition, our inability to successfully develop and maintain the necessary technological interfaces for our customers to purchase merchandise through our website and mobile applications, including user friendly software applications for smart phones and tablets, could result in the loss of Internet sales and have an adverse impact on our results of operations.

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

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

We have implemented several applications and systems from third party vendors, providers and licensors to simplify our processes and reduce our use of customized existing legacy systems and expect to place additional applications and systems into operation in the future. Any continued reliance on existing legacy systems may result in extended system outages due to the difficulty in recovering those systems as well as inefficiencies in our business workflow due to the complexity and high levels of customization inherent in such systems. Implementing new applications and systems carries substantial risk, including implementation delays, cost overruns, disruption of operations, potential loss of data or information, lower customer satisfaction resulting in lost customers or sales, inability to deliver merchandise to our stores or our customers, the potential inability to meet reporting requirements and unintentional security vulnerabilities. There can be no assurances that we will successfully launch the new applications and systems as planned, that the new applications and systems will perform as expected or that the new applications and systems will be implemented without disruptions to our operations, any of which may cause critical information upon which we rely to be delayed, unreliable, corrupted, insufficient or inaccessible.

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

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

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

We have insourced certain business functions and may also need to continue to insource other aspects of our business in the future in order to effectively manage our costs and stay competitive. We may also seek from time to time to relocate certain business functions to countries other than the United States to access highly skilled labor markets and

further control costs. There is no assurance that these efforts will be successful. In addition, future regulatory developments could hinder our ability to fully realize the anticipated benefits of these actions. These actions may also cause disruptions that negatively impact our business. If we are ultimately unable to perform insourced functions better than, or at least as well as, third party providers, or otherwise fully realize the anticipated benefits of these actions, our operating results could be adversely impacted.

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

The credit rating agencies periodically review our capital structure and the quality and stability of our earnings. Any downgrades to our long-term credit ratings could result in reduced access to the credit and capital markets and higher interest costs on future financings. The future availability of financing will depend on a variety of factors such as economic and market conditions, the availability of credit and our credit ratings, as well as the possibility that lenders could develop a negative perception of us. There is no assurance that we will be able to obtain additional financing on favorable terms or at all.

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

Our merchandise is sourced from a wide variety of suppliers, and our business depends on being able to find qualified suppliers and access products in a timely and efficient manner. Inflationary pressures on commodity prices and other input costs could increase our cost of goods, and an inability to pass such cost increases on to our customers or a change in our merchandise mix as a result of such cost increases could have an adverse impact on our profitability. Additionally, the impact of economic conditions on our suppliers cannot be predicted and our suppliers may be unable to access financing or become insolvent and thus become unable to supply us with products. Developments in tax policy, such as the disallowance of tax deductions for imported merchandise, the imposition of tariffs on imported merchandise, or changes to U.S. trade legislation could further have a material adverse effect on our results of operations and liquidity.

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

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

Our senior secured real estate term loan credit facility and senior secured notes are secured by certain of our real property and, together with our senior secured second priority notes, substantially all of our personal property, and such property may be subject to foreclosure or other remedies in the event of our default. In addition, the real estate term loan credit facility and the indentures governing the senior secured notes and senior secured second priority notes contain provisions that could restrict our operations and our ability to obtain additional financing.

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

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

If an event of default occurs and is continuing, our outstanding obligations under the term loan credit facility, the senior secured notes and the senior secured second-priority notes could be declared immediately due and payable or

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

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

We are party to a \$2.35 billion senior secured asset-based revolving credit facility. Our borrowing capacity under our revolving credit facility varies according to the Company's inventory levels, accounts receivable and credit card receivables, net of certain reserves. In the event of any material decrease in the amount of or appraised value of these assets, our borrowing capacity would similarly decrease, which could adversely impact our business and liquidity.

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

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

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

As of February 2, 2019, we have \$4.020 billion in total indebtedness and we are highly leveraged. Our level of indebtedness may limit our ability to obtain additional financing, if needed, to fund additional projects, working capital requirements, capital expenditures, debt service, and other general corporate or other obligations, as well as increase the risks to our business associated with general adverse economic and industry conditions. Our level of indebtedness may also place us at a competitive disadvantage to our competitors that are not as highly leveraged. In addition, any future limitations on tax deductions for interest paid on outstanding indebtedness as a result of the Tax Cuts and Jobs Act enacted in December 2017 (the "Tax Act") could have a material adverse effect on our results of operations and liquidity.

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

There is no assurance that our internal and external sources of liquidity will at all times be sufficient for our cash requirements.

We must have sufficient sources of liquidity to fund our working capital requirements, capital improvement plans, service our outstanding indebtedness and finance investment opportunities. The principal sources of our liquidity are funds generated from operating activities, available cash and cash equivalents, borrowings under our credit facilities, other debt financings, equity financings and sales of non-operating assets. We expect our ability to generate cash through the sale of non-operating assets to diminish as our portfolio of non-operating assets decreases. In addition, our recent operating losses have limited our capital resources. Our ability to achieve our business and cash flow plans is based on a number of assumptions which involve significant judgments and estimates of future performance, borrowing capacity and credit availability, which cannot at all times be assured. Accordingly, there is no assurance that cash flows from operations and other internal and external sources of liquidity will at all times be sufficient for our cash requirements. If necessary, we may need to consider actions and steps to improve our cash position and mitigate any potential liquidity shortfall, such as modifying our business plan, pursuing additional financing to the extent available, reducing capital expenditures, pursuing and evaluating other alternatives and opportunities to obtain additional sources of liquidity and other potential actions to reduce costs. There can be no assurance that any of these actions would be successful, sufficient or available on favorable terms. Any inability to generate or obtain



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sufficient levels of liquidity to meet our cash requirements at the level and times needed could have a material adverse impact on our business and financial position.

Our ability to obtain any additional financing or any refinancing of our debt, if needed at any time, depends upon many factors, including our existing level of indebtedness and restrictions in our debt facilities, historical business performance, financial projections, the value and sufficiency of collateral, prospects and creditworthiness, external economic conditions and general liquidity in the credit and capital markets. Any additional debt, equity or equity-linked financing may require modification of our existing debt agreements, which there is no assurance would be obtainable. Any additional financing or refinancing could also be extended only at higher costs and require us to satisfy more restrictive covenants, which could further limit or restrict our business and results of operations, or be dilutive to our stockholders.

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

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

- counterparty credit risk;

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

- the hedging transactions may be adjusted from time to time in accordance with accounting rules to reflect changes in fair values, downward adjustments or “mark-to-market losses,” which would affect our stockholders’ equity; and

- the risk that we may not be able to meet the terms and conditions of the hedging instruments, in which case we may be required to settle the instruments prior to maturity with cash payments that could significantly affect our liquidity.

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

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

Long-lived assets, primarily property and equipment, are reviewed at the store level at least annually for impairment, or whenever changes in circumstances indicate that a full recovery of net asset values through future cash flows is in question. We also assess the recoverability of indefinite-lived intangible assets at least annually or whenever events or changes in circumstances indicate that the carrying amount may not be fully recoverable. Our impairment review requires us to make estimates and projections regarding, but not limited to, sales, operating profit and future cash flows. If our operating performance reflects a sustained decline, we may be exposed to significant asset impairment charges in future periods, which could be material to our results of operations.

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

Synchrony Financial (“Synchrony”) owns and services our private label credit card and co-branded MasterCard® programs. Our agreement with Synchrony provides for certain payments to be made by Synchrony to the Company, including a share of income from the performance of the credit card portfolios. The income and cash flow that the Company receives from Synchrony is dependent upon a number of factors including the level of sales on private label and co-branded accounts, the percentage of sales on private label and co-branded accounts relative to the Company’s total sales, the level of balances carried on the accounts, payment rates on the accounts, finance charge rates and other fees on the accounts, the level of credit losses for the accounts, Synchrony’s ability to extend credit to our customers as well as the cost of customer rewards programs. All of these factors can vary based on changes in federal and state credit card, banking and consumer protection laws, which could

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also materially limit the availability of credit to consumers or increase the cost of credit to our cardholders. The factors affecting the income and cash flow that the Company receives from Synchrony can also vary based on a variety of economic, legal, social and other factors that we cannot control. If the income or cash flow that the Company receives from our consumer credit card program agreement with Synchrony decreases, our operating results and cash flows could be adversely affected.

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

A substantial portion of our merchandise is sourced by our vendors and by us outside of the United States. All of our direct private brand vendors must comply with our supplier legal compliance program and applicable laws, including consumer and product safety laws. Although we diversify our sourcing and production by country and supplier, the failure of a supplier to produce and deliver our goods on time, to meet our quality standards and adhere to our product safety requirements or to meet the requirements of our supplier compliance program or applicable laws could result in damage to our reputation.

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

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

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

Political or financial instability, trade restrictions, tariffs, currency exchange rates, labor conditions, congestion and labor issues at major ports, transport capacity and costs, systems issues, problems in third party distribution and warehousing and other interruptions of the supply chain, compliance with U.S. and foreign laws and regulations and other factors relating to international trade and imported merchandise beyond our control could affect the availability and the price of our inventory. These risks and other factors relating to foreign trade could subject us to liability or hinder our ability to access suitable merchandise on acceptable terms, which could adversely impact our results of operations. In addition, developments in tax policy, such as the disallowance of tax deductions for imported merchandise, the imposition of tariffs on imported merchandise, or changes to U.S. trade legislation could have a material adverse effect on our results of operations and liquidity.

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

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

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

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

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

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

Our profitability may be impacted by weather conditions.

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

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

Our business is subject to a wide array of laws and regulations. Government intervention and activism and/or regulatory reform may result in substantial new regulations and disclosure obligations and/or changes in the interpretation of existing laws and regulations, which may lead to additional compliance costs as well as the diversion of our management's time and attention from strategic initiatives. If we fail to comply with applicable laws and regulations, we could be subject to legal risk, including government enforcement action and class action civil litigation that could disrupt our operations and increase our costs of doing business. Changes in the regulatory

environment regarding topics such as privacy and information security, tax policy, product safety, environmental protection, including regulations in response to concerns regarding climate change, collective bargaining activities, minimum wage, wage and hour, and health care mandates, among others, as well as changes to applicable accounting rules and regulations, such as changes to lease accounting standards, could also cause our compliance costs to increase and adversely affect our business, financial condition and results of operations.

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

Our Company is subject to various legal and regulatory proceedings relating to our business, certain of which may involve jurisdictions with reputations for aggressive application of laws and procedures against corporate defendants. We are impacted by trends in litigation, including class action litigation brought under various consumer protection, employment, and privacy

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and information security laws. In addition, litigation risks related to claims that technologies we use infringe intellectual property rights of third parties have been amplified by the increase in third parties whose primary business is to assert such claims. Reserves are established based on our best estimates of our potential liability. However, we cannot accurately predict the ultimate outcome of any such proceedings due to the inherent uncertainties of litigation. Regardless of the outcome or whether the claims are meritorious, legal and regulatory proceedings may require that we devote substantial time and expense to defend our Company. Unfavorable rulings could result in a material adverse impact on our business, financial condition or results of operations.

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

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

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

The market price of our common stock has fluctuated substantially and may continue to fluctuate significantly. Future announcements or disclosures concerning us or any of our competitors, our strategic initiatives, our sales and profitability, our financial condition, any quarterly variations in actual or anticipated operating results or comparable sales, any failure to meet analysts' expectations and sales of large blocks of our common stock, among other factors, could cause the market price of our common stock to fluctuate substantially. In addition, the stock market has experienced price and volume fluctuations that have affected the market price of many retail and other stocks that have often been unrelated or disproportionate to the operating performance of these companies. This volatility could affect the price at which you could sell shares of our common stock.

Securities class action litigation has often been instituted against companies following periods of volatility in the overall market and in the market price of a company's securities. Such litigation could result in substantial costs, divert our management's attention and resources and have an adverse effect on our business, results of operations and financial condition.

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

The Company has a federal net operating loss (NOL) of \$2.1 billion as of February 2, 2019. Nearly all of these NOL carryforwards (expiring in 2032 through 2034) arose prior to December 31, 2017 and are available to offset future taxable income in full. NOLs recognized after December 31, 2017 are only available to offset up to 80% of the Company's future taxable income.

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

If an ownership change occurs, the amount of the taxable income for any post-change year that may be offset by a pre-change loss is subject to an annual limitation that is cumulative to the extent it is not all utilized in a year. This limitation is derived by multiplying the fair market value of the Company stock as of the ownership change by the applicable federal long-term tax-exempt rate, which was 2.51% at February 2, 2019. To the extent that a company has a net unrealized built-in gain at the time of



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an ownership change, which is realized or deemed recognized during the five-year period following the ownership change, there is an increase in the annual limitation for each of the first five-years that is cumulative to the extent it is not all utilized in a year.

The Company has an ongoing study of the rolling three-year testing periods. Based upon the elections the Company has made and the information that has been filed with the Securities and Exchange Commission through February 2, 2019, the Company has not had a Section 382 ownership change through February 2, 2019.

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

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

The rights plan could make it more difficult for a third party to acquire, or could discourage a third party from acquiring, our Company or a large block of our common stock. A third party that acquires 4.9% or more of our common stock could suffer substantial dilution of its ownership interest under the terms of the rights plan through the issuance of common stock or common stock equivalents to all stockholders other than the acquiring person.

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

Item 1B. Unresolved Staff Comments

None.

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## Item 2. Properties

At February 2, 2019, we operated 864 department stores throughout the continental United States, Alaska and Puerto Rico, of which 402 were owned, including 112 stores located on ground leases. The following table lists the number of stores operating by state as of February 2, 2019:

Alabama	15	Maine	5	Oklahoma	14
Alaska	1	Maryland	16	Oregon	8
Arizona	21	Massachusetts	9	Pennsylvania	27
Arkansas	14	Michigan	34	Rhode Island	2
California	74	Minnesota	15	South Carolina	14
Colorado	17	Mississippi	10	South Dakota	3
Connecticut	7	Missouri	24	Tennessee	21
Delaware	3	Montana	5	Texas	82
Florida	53	Nebraska	8	Utah	8
Georgia	22	Nevada	6	Vermont	4
Idaho	8	New Hampshire	9	Virginia	22
Illinois	29	New Jersey	12	Washington	20
Indiana	22	New Mexico	10	West Virginia	8
Iowa	11	New York	39	Wisconsin	10
Kansas	14	North Carolina	22	Wyoming	3
Kentucky	22	North Dakota	5	Puerto Rico	6
Louisiana	13	Ohio	37		
Total square feet	95.0 million				

We are party to a \$1.688 billion senior secured term loan credit facility and the issuer of \$500 million aggregate principal amount of senior secured notes that are secured by mortgages on certain real property of the Company, in addition to liens on substantially all personal property of the Company, subject to certain exclusions set forth in the security documents relating to the term loan credit facility and the senior secured notes. The real property subject to mortgages under the term loan credit facility and the indenture governing the senior secured notes includes our distribution centers and certain of our stores.

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At February 2, 2019, our supply chain network operated 11 facilities with multiple types of distribution activities, including store merchandise distribution centers (stores), regional warehouses (regional) and jcpenny.com fulfillment centers (direct to customers) as indicated in the following table:

Location	Leased/Owned	Primary Function(s)	Square Footage (in thousands)
Lenexa, Kansas	Owned	stores, direct to customers	1,944
Columbus, Ohio	Owned	stores, direct to customers	1,941
Atlanta, Georgia	Owned	stores, regional, direct to customers	2,026
Reno, Nevada	Owned	stores, direct to customers	1,660
Alliance, Texas	Owned	regional	920
Statesville, North Carolina	Owned	stores, regional	595
Manchester, Connecticut	Leased	stores, direct to customers	1,956
Lathrop, California	Leased	regional	436
Cedar Hill, Texas	Leased	stores	420
Spanish Fork, Utah	Leased	stores	412
San Bernardino, California	Leased	stores	625
Total supply chain network			12,935

## Item 3. Legal Proceedings

The matters under the caption "Litigation" in Note 21 of the Notes to Consolidated Financial Statements included in this Form 10-K are incorporated herein by reference.

## Item 4. Mine Safety Disclosures

Not applicable.

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market for Registrant's Common Equity

Our common stock is traded principally on the New York Stock Exchange (NYSE) under the symbol "JCP." The number of stockholders of record at March 15, 2019, was 21,122. In addition to common stock, we have authorized 25 million shares of preferred stock, of which no shares were issued and outstanding at February 2, 2019.

Since May 2012, the Company has not paid a dividend. Under our senior secured term loan credit facility and senior secured asset-based credit facility, we are subject to restrictive covenants regarding our ability to pay cash dividends.

Additional information relating to the common stock and preferred stock is included in this Annual Report on Form 10-K in the Consolidated Statements of Stockholders' Equity and in Note 13 to the Consolidated Financial Statements.

Issuer Purchases of Securities

No repurchases of common stock were made during the fourth quarter of 2018 and no amounts are authorized for share repurchases as of February 2, 2019.

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Five-Year Total Stockholder Return Comparison

The following presentation compares our cumulative stockholder returns for the past five fiscal years with the returns of the S&P 500 Stock Index and the S&P 500 Retail Index for Department Stores over the same period. A list of these companies follows the graph below. The graph assumes \$100 invested at the closing price of our common stock on the NYSE and each index as of the last trading day of our fiscal year 2013 and assumes that all dividends were reinvested on the date paid. The points on the graph represent fiscal year-end amounts based on the last trading day of each fiscal year. The following graph and related information shall not be deemed “soliciting material” or to be “filed” with the Securities and Exchange Commission, nor shall such information be incorporated by reference into any filing under the Securities Act of 1933 or Securities Exchange Act of 1934, each as amended, except to the extent that we specifically incorporate it by reference into such filing.

S&P Department Stores:  
Macy’s, Kohl’s, Nordstrom

	2013	2014	2015	2016	2017	2018
JCPenney	\$100	\$123	\$123	\$109	\$60	\$22
S&P 500	100	114	113	137	168	168
S&P Department Stores	100	125	90	73	89	94

The stockholder returns shown are neither determinative nor indicative of future performance.

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## Item 6. Selected Financial Data

As of February 4, 2018, we adopted Accounting Standards Codification (ASC) Topic 606 (ASC 606), Revenue from Contracts with Customers, and Accounting Standards Update (ASU) 2017-07, Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. As a result, certain prior period results have been adjusted due to the transition methods applied. See Note 3 to the Consolidated Financial Statements for further information.

## Five-Year Financial Summary

(\$ in millions, except per share data)	2018	2017		2016		2015		<sup>(1)</sup> 2014		<sup>(1)</sup>
		As Adjusted	As Adjusted	As Adjusted	As Adjusted	As Adjusted	As Adjusted			
Results for the year										
Total net sales	\$11,664	\$12,554	\$12,571	\$12,625	\$12,257					
Sales percent increase/(decrease):										
Total net sales	(7.1 )%	<sup>(2)</sup> (0.1 )%	<sup>(2)</sup> (0.4 )%	<sup>(3)</sup> 3.0 %	3.4 %					
Comparable store sales <sup>(4)</sup>	(3.1 )%	0.1 %	0.0 %	4.5 %	4.4 %					
Operating income/(loss)	(6 )	212	324	4	(363 )					
As a percent of sales	(0.1 )%	1.7 %	2.6 %	0.0 %	(3.0 )%					
Net income/(loss) from continuing operations	(255 )	(118 )	(17 )	(513 )	(717 )					
Adjusted EBITDA (non-GAAP) <sup>(5)</sup>	568	935	926	654	189					
Adjusted net income/(loss) from continuing operations (non-GAAP) <sup>(5)</sup>	(296 )	31	(59 )	(376 )	(869 )					
Per common share										
Earnings/(loss) per share from continuing operations, diluted	\$(0.81 )	\$(0.38 )	\$(0.06 )	\$(1.68 )	\$(2.35 )					
Adjusted earnings/(loss) per share from continuing operations, diluted (non-GAAP) <sup>(5)</sup>	\$(0.94 )	\$0.10	\$(0.19 )	\$(1.23 )	\$(2.85 )					
Financial position and cash flow										
Total assets	\$7,721	\$8,454	\$9,160	\$9,211	\$10,137					
Cash and cash equivalents	333	458	887	900	1,318					
Total debt <sup>(6)</sup>	4,020	4,232	4,836	4,805	5,321					
Free cash flow (non-GAAP) <sup>(5)</sup>	111	213	3	131	57					

(1) We have chosen to not adjust 2015 and 2014 results for ASC 606, as permitted. Therefore, 2015 and 2014 only reflect adjusted results for ASU 2017-07.

(2) Includes the effect of the 53rd week in 2017. Excluding sales of \$147 million for the 53rd week in 2017, total net sales decreased 6.0% in 2018 and 1.3% in 2017.

(3) Calculation of increase/(decrease) of Total net sales as presented.

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

(5) See Non-GAAP Financial Measures herein for additional information and reconciliation to the most directly comparable GAAP financial measure.

(6)

Total debt includes long-term debt, net of unamortized debt issuance costs, including current maturities, capital leases, financing obligation, note payable and any borrowings under our revolving credit facility.

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## Five-Year Operations Summary

	2018	2017	2016	2015	2014
Number of department stores:					
Beginning of year	872	1,013	1,021	1,062	1,094
Openings	1	—	1	—	1
Closings	(9 )	(141 )	(9 )	(41 )	(33 )
End of year	864	872	1,013	1,021	1,062
Gross selling space (square feet in millions)	95.0	95.6	103.3	104.7	107.9
Sales per gross square foot <sup>(1)</sup>	\$122	\$127	\$121	\$120	\$113
Sales per net selling square foot <sup>(1)</sup>	\$170	\$177	\$166	\$165	\$155

Calculation includes the sales, including commission revenue, and square footage of department stores, including (1) selling space allocated to services and licensed departments, that were open for the full fiscal year, as well as Internet sales.



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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion, which presents our results, should be read in conjunction with the accompanying Consolidated Financial Statements and notes thereto, along with the Five-Year Financial and Operations Summaries, the risk factors and the cautionary statement regarding forward-looking information. Unless otherwise indicated, all references in this Management's Discussion and Analysis (MD&A) related 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.

Current Initiatives

With the development of a new senior leadership team, management is in the process of reassessing strategies and evaluating the transformational needs of the business. Going through this process, management's immediate priority is to reestablish the fundamentals of retail based on the following initiatives:

- Reducing and enhancing our inventory position;
- Strengthening our integrated omnichannel strategy;
- Redesigning and improving core store processes;
- Improving our shrink results; and
- Revamping our merchandise assortments and strategies.

First, we will continue our efforts to reduce and enhance our inventory position. For 2018, inventory was reduced by over 13%. For 2019, we will continue to clear unproductive inventory swiftly and thoughtfully and implement new processes and training across our organization to ensure proper inventory management and merchandising and prevent future build-up of excess inventory.

Second, we will continue to strengthen our integrated omnichannel strategy to ensure we return to growth in our digital channels, but in a sustainable and profitable way. In 2019, we continue to focus on improving the overall customer experience from a digital standpoint and on strengthening our omnichannel retail capabilities to ensure we have a consistent experience regardless of whether our customer is shopping on-line, mobile or in-store.

Third, we will redesign and improve core store processes while implementing enhanced technology tools to better equip our store associates to deliver on our customers' expectations. In 2019, we will have a critical focus on improving the productivity of our labor hours by delivering service to the customer where and when it matters most.

Fourth, we are taking immediate action to improve our shrink results. We have made and will continue to make technology investments and staffing adjustments to improve our inventory shrink results.

Lastly, we will continue to revamp and rethink our merchandise assortments and strategies. In 2019, we made the decision to discontinue selling major appliances in an effort to improve financial performance and refocus on our legacy strengths in apparel and soft home as well as profitable growth opportunities. We will also continue to leverage our best-in-class global sourcing and design organization across our product spectrum to enhance the style and quality we deliver, but also to improve profitability within our assortment.

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2018 Overview

Total net sales were \$11,664 million, a decrease of 7.1% as compared to 2017, and comparable store sales decreased 3.1% for the year.

Credit income and other was \$355 million compared to \$319 million in 2017. The increase was due to improved performance of the credit portfolio.

Cost of goods sold, which excludes depreciation and amortization, as a percentage of Total net sales was 67.5% compared to 65.4% last year. The increase as a rate of sales was primarily driven by planned markdown and pricing actions taken during the year to reduce excess inventory.

Selling, general and administrative (SG&A) expenses decreased \$249 million, or 6.5%, as compared to 2017. These savings were primarily driven by lower store controllable costs, incentive compensation and corporate overhead.

Net loss was \$255 million, or \$0.81 per share, compared to a net loss of \$118 million, or \$0.38 per share, in 2017. Results for 2018 included the following amounts that are not directly related to our ongoing core business operations:

\$22 million, or \$(0.07) per share, of restructuring and management transition charges;  
\$71 million, or \$0.22 per share, for other components of net periodic pension and postretirement benefit income;  
\$23 million, or \$(0.07) per share, for the loss on extinguishment of debt;  
\$4 million, or \$0.01 per share, for our proportional share of net income from our joint venture formed to develop the excess property adjacent to our home office facility in Plano, Texas (Home Office Land Joint Venture); and  
\$11 million, or \$0.03 per share, for the tax benefit resulting from other comprehensive income allocation related to pension and interest rate swap activity.

Adjusted net loss was \$296 million, or \$(0.94) per share, compared to adjusted net income of \$31 million, or \$0.10 per share, in 2017. See the reconciliation of net income/(loss) and diluted EPS, the most directly comparable GAAP financial measures, to adjusted net income/(loss) and adjusted diluted EPS on page 35.

Adjusted EBITDA was \$568 million for 2018 compared to adjusted EBITDA of \$935 million in 2017. See the reconciliation of net income/(loss), the most directly comparable GAAP financial measure, to adjusted EBITDA on page 35.

On March 12, 2018, JCP issued \$400 million aggregate principal amount of senior secured second priority notes due 2025 with a 8.625% rate (2025 Notes). The net proceeds from the 2025 Notes were used for the tender consideration for JCP's contemporaneous cash tender offers for \$125 million aggregate principal amount of its 8.125% Senior Notes Due 2019 (2019 Notes) and \$250 million aggregate principal amount of its 5.65% Senior Notes Due 2020 (2020 Notes).

We completed the sale-leasebacks of our Milwaukee, Wisconsin and Manchester, Connecticut distribution facilities for net sales prices of \$30 million and \$68 million, respectively, and recorded net gains of \$12 million and \$38 million, respectively.

We recorded an impairment charge of \$52 million related to management's decision to sell three airplanes. Two of the airplanes were sold during the second quarter of 2018 at their fair value of \$12 million and the third airplane was sold during the third quarter of 2018 at its fair value of \$8 million.

We completed a multi-year extension of our private-label and co-branded credit card agreement with Synchrony Financial (Synchrony). The amended and restated agreement provides for improved alignment with respect to the marketing and servicing alliance of the program.

Effective October 15, 2018, the Board of Directors elected Jill Soltau as Chief Executive Officer of the Company.

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## Results of Operations

As of February 4, 2018, we adopted Accounting Standards Codification (ASC) Topic 606 (ASC 606), Revenue from Contracts with Customers, and Accounting Standards Update (ASU) 2017-07, Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. As a result, the prior period results and the related discussion thereto are based on the adjusted operating performance presented below. See Note 3 to the Consolidated Financial Statements for further information.

## Three-Year Comparison of Operating Performance

(in millions, except per share data)

	2018	2017	2016
		As Adjusted	As Adjusted
Total net sales	\$ 11,664	\$ 12,554	\$ 12,571
Credit income and other	355	319	347
Total revenues	12,019	12,873	12,918
Total net sales percent increase/(decrease) from prior year	(7.1 )%	(0.1 )%	(0.4 )%
Comparable store sales increase/(decrease) <sup>(2)</sup>	(3.1 )%	0.1 %	0.0 %
Costs and expenses/(income):			
Cost of goods sold (exclusive of depreciation and amortization shown separately below)	7,870	8,208	8,097
Selling, general and administrative	3,596	3,845	3,973
Depreciation and amortization	556	570	609
Real estate and other, net	(19 )	(146 )	(111 )
Restructuring and management transition	22	184	26
Total costs and expenses	12,025	12,661	12,594
Operating income/(loss)	(6 )	212	324
As a percent of sales	(0.1 )%	1.7 %	2.6 %
Other components of net periodic pension and postretirement benefit cost/(income)	(71 )	98	(53 )
Loss on extinguishment of debt	23	33	30
Net interest expense	313	325	363
Income/(loss) before income taxes	(271 )	(244 )	(16 )
Income tax (benefit)/expense	(16 )	(126 )	1
Net income/(loss)	\$(255 )	\$(118 )	\$(17 )
Adjusted EBITDA <sup>(3)</sup>	\$568	\$935	\$926
Adjusted net income/(loss) (non-GAAP) <sup>(3)</sup>	\$(296 )	\$31	\$(59 )
Diluted EPS	\$(0.81 )	\$(0.38 )	\$(0.06 )
Adjusted diluted EPS (non-GAAP) <sup>(3)</sup>	\$(0.94 )	\$0.10	\$(0.19 )
Weighted average shares used for diluted EPS	315.7	311.1	308.1

(1) Includes the effect of the 53rd week in 2017. Excluding sales of \$147 million for the 53rd week in 2017, total net sales decreased 6.0% in 2018 and 1.3% in 2017.

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

(3) See discussion herein of this non-GAAP financial measure and reconciliation to its most directly comparable GAAP financial measure.



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## 2018 Compared to 2017

## Total Net Sales

Our year-to-year change in total net sales is comprised of (a) sales from new stores net of closings and relocations, referred to as non-comparable store sales, (b) sales of stores opened in both years as well as Internet sales, referred to as comparable store sales and (c) other revenue adjustments such as sales return estimates and store liquidation sales. We consider comparable store sales to be a key indicator of our current performance measuring the growth in sales and sales productivity of existing stores. Positive comparable store sales contribute to greater leveraging of operating costs, particularly payroll and occupancy costs, while negative comparable store sales contribute to de-leveraging of costs. Comparable store sales also have a direct impact on our total net sales and the level of cash flow.

	2018	2017		
Total net sales (in millions)	\$ 11,664	\$ 12,554		
Sales percent increase/(decrease)				
Total net sales <sup>(1)</sup>	(7.1 )%	(0.1 )%		
Comparable store sales <sup>(2)</sup>	(3.1 )%	0.1 %		
Sales per gross square foot <sup>(3)</sup>	\$ 122	\$ 127		

(1) Includes the effect of the 53rd week in 2017. Excluding sales of \$147 million for the 53rd week in 2017, total net sales decreased 6.0% in 2018 and 1.3% in 2017.

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

(2) Calculation includes the sales, including commission revenue, and square footage of department stores, including selling space allocated to services and licensed departments, that were open for the full fiscal year, as well as Internet sales.

Total net sales decreased \$890 million in 2018 compared to 2017. The following table provides the components of the net sales decrease:

(\$ in millions)	2018
Comparable store sales increase/(decrease)	\$(364)
Sales related to new and closed stores, net	(394 )
Other revenues and sales adjustments <sup>(1)</sup>	(132 )
Total net sales increase/(decrease)	\$(890)

(1) Includes sales of \$147 million for the 53rd week in 2017.

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

- Stores increase Internet sales by providing customers opportunities to view, touch and/or try on physical merchandise before ordering online.

- Our website increases store sales as in-store customers have often pre-shopped online before shopping in the store, including verification of which stores have online merchandise in stock.

- Most Internet purchases are easily returned in our stores.

- CPenney Rewards can be earned and redeemed online or in stores.

-

In-store customers can order from our website with the assistance of associates in our stores or they can shop our website from the JCPenney app while inside the store.

Customers who utilize the JCPenney app can receive mobile coupons to use when they check out both online or in our stores.

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• Internet orders can be shipped from a dedicated jcpenny.com fulfillment center, a store, a store merchandise distribution center, a regional warehouse, directly from vendors or any combination of the above.

• Certain categories of store inventory can be accessed and purchased by jcpenny.com customers and shipped directly to the customer's home from the store.

• Internet orders can be shipped to stores for customer pick up.

• "Buy online and pick up in store" is now available in all of our stores.

For 2018, units per transaction and average unit retail increased, while transaction counts decreased as compared to the prior year. On a geographic basis, all regions experienced comparable store sales decreases for 2018 compared to the prior year. During 2018, our Jewelry merchandise division experienced a comparable store sales increase and all other merchandise divisions experienced sales decreases.

During both 2018 and 2017, private brand merchandise comprised 46% and exclusive brand merchandise comprised 7% of total merchandise sales.

**Credit Income and Other**

Our private label credit card and co-branded MasterCard® programs are owned and serviced by Synchrony. Under our agreement, we receive cash payments from Synchrony based upon the performance of the credit card portfolio. We participate in the programs by providing marketing promotions designed to increase the use of each card, including enhanced marketing offers for cardholders. Additionally, we accept payments in our stores from cardholders who prefer to pay in person when they are shopping in our locations. For 2018 and 2017, we recognized income of \$355 million and \$319 million, respectively, pursuant to our agreement with Synchrony.

**Cost of Goods Sold**

Cost of goods sold, exclusive of depreciation and amortization, increased to 67.5% of sales in 2018, or 210 basis points, compared to 65.4% in 2017. On a dollar basis, cost of goods sold decreased \$338 million, or 4.1%, to \$7,870 million in 2018 compared to \$8,208 million in the prior year. The net 210 basis point increase was primarily driven by planned markdown and pricing actions taken during the year to reduce excess inventory.

**SG&A Expenses**

SG&A expenses declined \$249 million to \$3,596 million in 2018 compared to \$3,845 million in 2017. These savings were primarily driven by lower store controllable costs, incentive compensation and corporate overhead. As a percent of sales, SG&A expenses were 30.8% compared to 30.6% in the prior year. The net 20 basis point increase was primarily driven by lower leveraging of SG&A expenses as a result of the decrease in net sales.

**Depreciation and Amortization Expenses**

Depreciation and amortization expense in 2018 decreased \$14 million to \$556 million, or 2.5%, compared to \$570 million in 2017. This decrease is primarily a result of closing store locations.

**Real Estate and Other, Net**

Real estate and other consists of ongoing operating income from our real estate subsidiaries. Real estate and other also includes net gains from the sale of facilities and equipment that are no longer used in operations, asset impairments, accruals for certain litigation and other non-operating charges and credits. In addition, during the first quarter of 2014, we entered into the Home Office Land Joint Venture in which we contributed approximately 220 acres of excess property adjacent to our home office facility in Plano, Texas. The joint venture was formed to develop the contributed property and our proportional share of the joint venture's activities is recorded in Real estate and other, net. During the third quarter of 2018, we sold our interest to the other partner and are no longer a member of the joint venture.

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

(\$ in millions)	2018	2017
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Investment income from Home Office Land Joint Venture	\$(4 )	\$(31 )
Net gain from sale of operating assets	(67 )	(119 )
Impairments	52	—
Other	—	4
Total expense/(income)	\$(19)	\$(146)

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

In 2018, we completed the sale-leasebacks of our Milwaukee, Wisconsin and Manchester, Connecticut distribution facilities for net sales prices of \$30 million and \$68 million, respectively and recognized net gains of \$12 million and \$38 million, respectively.

In 2017, the net gain from the sale of operating assets primarily related to the sale of our Buena Park, California distribution facility for a net sale price of \$131 million and a net gain of \$111 million and the sale of excess property.

During 2018, we recorded an impairment charge of \$52 million related to management's decision to sell three airplanes. Two of the airplanes were sold during the second quarter of 2018 at their fair value of \$12 million and the third airplane was sold during the third quarter of 2018 at its fair value of \$8 million.

**Restructuring and Management Transition**

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

(\$ in millions)	2018	2017
Home office and stores	\$ 13	\$176
Management transition	9	—
Other	—	8
Total	\$ 22	\$184

In 2018 and 2017, we recorded \$13 million and \$176 million, respectively, of costs to reduce our store and home office expenses. Costs during 2018 include employee termination benefits of \$10 million, store related closing costs of \$6 million and a \$3 million net gain of the sales of certain closed stores. Costs during 2017, primarily related to the closure of 138 stores, include store closing asset impairments of \$77 million, employee termination benefits of \$29 million and store related closing costs of \$75 million.

We also implemented changes within our management leadership team during 2018 that resulted in management transition costs of \$9 million, for both incoming and outgoing members of management.

**Operating Income/(Loss)**

For 2018, we reported an operating loss of \$6 million compared to operating income of \$212 million in 2017, which is a decline of \$218 million.

**Other Components of Net Periodic Pension and Postretirement Benefit Cost/(Income)**

Other components of net periodic pension and postretirement benefit cost/(income) was \$(71) million in 2018 compared to \$98 million in 2017. In February 2017, we announced a Voluntary Early Retirement Program (VERP), which was offered to approximately 6,000 eligible associates. In the first quarter of 2017, we recorded a total charge of approximately \$120 million related to the VERP. Charges included \$112 million related to special retirement benefits for the approximately 2,800 associates who accepted the VERP and \$7 million related to curtailment charges for our pension plans as a result of the reduction in the expected years of future service related to these plans.

**(Gain)/Loss on Extinguishment of Debt**

During the first quarter of 2018, we settled cash tender offers with respect to portions of our outstanding 8.125% Senior Notes Due 2019 (2019 Notes) and 5.65% Senior Notes Due 2020 (2020 Notes), resulting in a loss on extinguishment of debt of \$23 million.

During the second quarter of 2017, we settled cash tender offers with respect to portions of our outstanding 5.75% Senior Notes due 2018 (2018 Notes) and 2019 Notes, resulting in a loss on extinguishment of debt of \$34 million, and

amended and restated our \$2.35 billion senior secured asset-based revolving credit facility (Revolving Credit Facility), which resulted in a loss on extinguishment of debt of \$1 million.

During the fourth quarter of 2017, we repurchased and retired \$40 million aggregate principal amount of our outstanding 2020 Notes resulting in a gain on extinguishment of debt of \$2 million.

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### Net Interest Expense

Net interest expense consists principally of interest expense on long-term debt, net of interest income earned on cash and cash equivalents. In 2018, Net interest expense was \$313 million, a decrease of \$12 million, or 3.7%, from \$325 million in 2017. The reduction in net interest expense is due to lower debt levels in 2018 compared to 2017.

### Income Taxes

Our deferred tax assets, which include the future tax benefits of our net operating loss carryforwards, are subject to a valuation allowance. At February 2, 2019, the federal and state valuation allowances were \$553 million and \$249 million, respectively. Our deferred tax assets include the impact of re-measurement on U. S. deferred taxes at the lower enacted corporate tax rate resulting from U. S. tax reform enacted in December 2017. Future book pre-tax losses will require additional valuation allowances to offset the deferred tax assets created. Until such time that we achieve sufficient profitability to allow removal of most of our valuation allowance, utilization of our loss carryforwards will result in a corresponding decrease in the valuation allowance and offset our tax provision dollar for dollar.

Each period we are required to allocate our income tax expense or benefit to continuing operations and other items such as other comprehensive income and stockholder's equity. In accordance with these rules, when we have a loss in continuing operations and a gain in other comprehensive income, as arose in 2013, we are required to recognize a tax benefit in continuing operations up to the amount of tax expense that we are required to report in other comprehensive income. In 2018, we experienced a loss in continuing operations and income in other comprehensive income. Under the allocation rules, we are only required to recognize the valuation allowance allocable to the tax benefit attributable to losses in each component of comprehensive income. Accordingly, there is no valuation allowance offsetting a deferred tax benefit attributable to other comprehensive income included in the total valuation allowance of \$802 million noted above.

For 2018, we recorded a net tax benefit of \$16 million. Tax benefit includes \$16 million to adjust the valuation allowance, \$1 million for state audit settlements and \$11 million related to other comprehensive income offset by tax expense of \$4 million related to the amortization of certain indefinite-lived intangible assets, \$7 million for federal, state and foreign jurisdictions where loss carryforwards are limited or unavailable and \$1 million for state law changes.

For 2017, we recorded a net tax benefit of \$126 million. Tax benefit includes \$75 million related to the re-measurement of the U. S. net deferred tax liabilities from 35% to 21% tax rate, \$3 million to adjust the valuation allowance, \$1 million for state audit settlements and \$60 million related to other comprehensive income offset by tax expense of \$7 million related to the amortization of certain indefinite-lived intangible assets and \$6 million for state and foreign jurisdictions where loss carryforwards are limited.

### Net Income/(Loss) and Adjusted Net Income/(Loss) (non-GAAP)

In 2018, we reported a loss of \$255 million, or \$0.81 per share, compared with loss of \$118 million, or \$0.38 per share, in 2017. Excluding the impact of restructuring and management transition charges, other components of periodic pension and postretirement benefit cost/(income), the loss on extinguishment of debt, the proportional share of net income from joint venture, the tax impact resulting from other comprehensive income allocation, and the impact of tax reform, adjusted net income/(loss) (non-GAAP) was a loss of \$296 million, or \$0.94 per share, in 2018 compared to income of \$31 million, or \$0.10 per share, in 2017.

The reduction in net income/(loss) in 2018 was driven primarily by lower operating performance relative to the prior year.

### Adjusted EBITDA (non-GAAP)

In 2018, adjusted EBITDA was \$568 million, a decline of \$367 million for 2018 compared to adjusted EBITDA of \$935 million for the prior year.

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## 2017 Compared to 2016

## Total Net Sales

	2017	2016
Total net sales (in millions)	\$12,554	\$12,571
Sales percent increase/(decrease)		
Total net sales	(0.1 )%	(4.0 )%
Comparable store sales <sup>(2)</sup>	0.1 %	0.0 %
Sales per gross square foot <sup>(3)</sup>	\$127	\$121

(1) Includes the effect of the 53rd week in 2017. Excluding sales of \$147 million for the 53rd week in 2017, total net sales decreased 1.3% in 2017.

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

(2) Calculation includes the sales, including commission revenue, and square footage of department stores, including selling space allocated to services and licensed departments, that were open for the full fiscal year, as well as Internet sales.

Total net sales decreased \$17 million in 2017 compared to 2016. The following table provides the components of the net sales decrease:

(\$ in millions)	2017
Comparable store sales increase/(decrease)	\$12
Sales related to new and closed stores, net	(205 )
Other revenues and sales adjustments <sup>(1)</sup>	176
Total net sales increase/(decrease)	\$(17)

(1) Includes sales of \$147 million for the 53rd week in 2017.

For 2017, units per transaction increased and average unit retail increased, while transaction counts decreased as compared to the prior year. On a geographic basis, all regions experienced comparable store sales decreases for 2017 compared to the prior year. During 2017, our Home, Jewelry, Sephora and Footwear and Handbags merchandise divisions experienced sales increases. Home, which reflected the addition of 100 new appliance showrooms, experienced the highest sales increase.

During 2017, private brand merchandise comprised 46% of total merchandise sales, as compared to 44% in 2016. During 2017 and 2016, exclusive brand merchandise comprised 7% and 8%, respectively, of total merchandise sales.

## Credit Income and Other

Our private label credit card and co-branded MasterCard® programs are owned and serviced by Synchrony. Under our agreement, we receive cash payments from Synchrony based upon the performance of the credit card portfolio. We participate in the programs by providing marketing promotions designed to increase the use of each card, including enhanced marketing offers for cardholders. Additionally, we accept payments in our stores from cardholders who prefer to pay in person when they are shopping in our locations. For 2017 and 2016, we recognized income of \$319 million and \$347 million, respectively, pursuant to our agreement with Synchrony.

Cost of Goods Sold

Cost of goods sold, exclusive of depreciation and amortization, increased to 65.4% of sales in 2017, or 100 basis points, compared to 2016. On a dollar basis, cost of goods sold increased \$111 million, or 1.4%, to \$8,208 million in 2017 compared to \$8,097 million in the prior year. The net 100 basis point increase was primarily driven by the liquidation of both closed store and slow-moving inventory, higher shrinkage rates and the continued growth in certain lower margin merchandise categories such as major appliances.

SG&A Expenses

SG&A expenses declined \$128 million to \$3,845 million in 2017 compared to \$3,973 million in 2016, primarily due to the closing of 138 stores. As a percent of sales, SG&A expenses were 30.6% compared to 31.6% in the prior year. The net 100

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basis point improvement was primarily driven by reductions in store controllable costs and marketing efficiencies, which were partially offset by higher incentive compensation.

#### Depreciation and Amortization Expense

Depreciation and amortization expense in 2017 decreased \$39 million to \$570 million, or 6.4%, compared to \$609 million in 2016. This decrease was primarily a result of closing 141 store locations in 2017.

#### Real Estate and Other, Net

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

(\$ in millions)	2017	2016
Net gain from sale of non-operating assets	\$—	\$(5 )
Investment income from Home Office Land Joint Venture	(31 )	(28 )
Net gain from sale of operating assets	(119 )	(73 )
Other	4	(5 )
Total expense/(income)	\$(146)	\$(111)

In 2016, we sold several non-operating assets for a net gain of \$5 million.

In 2017, the net gain from the sale of operating assets primarily related to the sale of our Buena Park, California distribution facility for a net sale price of \$131 million and a net gain of \$111 million and the sale of excess property.

In 2016, the net gain from the sale of operating assets related to the sale of land surrounding our home office and the sale of excess property.

#### Restructuring and Management Transition

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

(\$ in millions)	2017	2016
Home office and stores	\$176	\$8
Management transition	—	3
Other	8	15
Total	\$184	\$26

In 2017 and 2016, we recorded \$176 million and \$8 million, respectively, of costs to reduce our store and home office expenses. Costs during 2017, primarily related to the closure of 138 stores, included store closing asset impairments of \$77 million, employee termination benefits of \$29 million and store related closing costs of \$75 million. For 2016, the costs relate to employee termination benefits, lease termination costs and impairment charges associated with the closure of 7 department stores.

We also implemented changes within our management leadership team during 2016 that resulted in management transition costs of \$3 million. Other miscellaneous restructuring charges of \$15 million, primarily related to contract termination and other costs associated with our previous shops strategy, were recorded during 2016.

#### Operating Income/(Loss)

For 2017, we reported operating income of \$212 million compared to operating income of \$324 million in 2016, which was a decline of \$112 million.

#### Other Components of Net Periodic Pension and Postretirement Benefit Cost/(Income)

Other components of net periodic pension and postretirement benefit cost/(income) was \$98 million in 2017 compared to \$(53) million in 2016. In February 2017, we announced a Voluntary Early Retirement Program (VERP), which was



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

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### (Gain)/Loss on Extinguishment of Debt

During the second quarter of 2017, we settled cash tender offers with respect to portions of our outstanding 2018 Notes and 2019 Notes, resulting in a loss on extinguishment of debt of \$34 million, and amended and restated our \$2.35 billion Revolving Credit Facility, which resulted in a loss on extinguishment of debt of \$1 million.

During the fourth quarter of 2017, we repurchased and retired \$40 million aggregate principal amount of our outstanding 2020 Notes resulting in a gain on extinguishment of debt of \$2 million.

During the first quarter of 2016, we repurchased and retired \$60 million aggregate principal amount of our outstanding debt resulting in a gain on extinguishment of debt of \$4 million.

During the second quarter of 2016, we completed the refinancing of our \$2.25 billion five-year senior secured term loan facility with an amended and restated \$1.688 billion seven-year senior secured term loan credit facility (2016 Term Loan Facility) and the issuance of \$500 million aggregate principal amount of 5.875% Senior Secured Notes due 2023 (Senior Secured Notes), resulting in a loss on extinguishment of debt of \$34 million.

### Net Interest Expense

In 2017, Net interest expense was \$325 million, a decrease of \$38 million, or 10.5%, from \$363 million in 2016. The reduction in net interest expense is due to lower debt levels in 2017 compared to 2016.

### Income Taxes

Our deferred tax assets, which include the future tax benefits of our net operating loss carryforwards, are subject to a valuation allowance. At February 3, 2018, the federal and state valuation allowances were \$534 million and \$232 million, respectively. Our deferred tax assets include the impact of re-measurement on U. S. deferred taxes at the lower enacted corporate tax rate resulting from U. S. tax reform enacted in December 2017. Future book pre-tax losses will require additional valuation allowances to offset the deferred tax assets created. Until such time that we achieve sufficient profitability to allow removal of most of our valuation allowance, utilization of our loss carryforwards will result in a corresponding decrease in the valuation allowance and offset our tax provision dollar for dollar.

Each period we are required to allocate our income tax expense or benefit to continuing operations and other items such as other comprehensive income and stockholder's equity. In accordance with these rules, when we have a loss in continuing operations and a gain in other comprehensive income, as arose in 2013, we are required to recognize a tax benefit in continuing operations up to the amount of tax expense that we are required to report in other comprehensive income. In 2017, we experienced a loss in continuing operations and income in other comprehensive income. Under the allocation rules, we are only required to recognize the valuation allowance allocable to the tax benefit attributable to losses in each component of comprehensive income. Accordingly, there is no valuation allowance offsetting a deferred tax benefit attributable to other comprehensive income included in the total valuation allowance of \$766 million noted above.

For 2017, we recorded a net tax benefit of \$126 million. Tax benefit includes \$75 million related to the re-measurement of the U. S. net deferred tax liabilities from 35% to 21% tax rate, \$3 million to adjust the valuation allowance, \$1 million for state audit settlements and \$60 million related to other comprehensive income offset by tax expense of \$7 million related to the amortization of certain indefinite-lived intangible assets and \$6 million for state and foreign jurisdictions where loss carryforwards are limited.

For 2016, we recorded a net tax expense of \$1 million. Tax expense included \$7 million related to the amortization of certain indefinite-lived intangible assets, \$9 million for state and foreign jurisdictions where loss carryforwards are limited or unavailable offset by tax benefits of \$1 million to adjust the valuation allowance, \$2 million for state audit settlements and \$12 million related to other comprehensive income.

Net Income/(Loss) and Adjusted Net Income/(Loss)

In 2017, we reported a loss of \$118 million, or \$0.38 per share, compared with a loss of \$17 million, or \$0.06 per share, in 2016. Excluding the impact of restructuring and management transition charges, other components of net periodic pension and postretirement benefit cost/(income), the loss on extinguishment of debt, the net gain on sale of non-operating assets, the proportional share of net income from joint venture and the tax impact resulting from other comprehensive income allocation, and the impact of tax reform, adjusted net income/(loss) (non-GAAP) was income of \$31 million, or \$0.10 per share, in 2017 compared to a loss of \$59 million, or \$0.19 per share, in 2016.

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The reduction in net income/(loss) in 2017 was driven primarily by restructuring charges associated with the 2017 store closures and the VERP.

### Adjusted EBITDA (non-GAAP)

In 2017, adjusted EBITDA was \$935 million, an increase of \$9 million for 2017 compared to adjusted EBITDA of \$926 million for the prior year.

### Non-GAAP Financial Measures

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

The following non-GAAP financial measures are adjusted to exclude restructuring and management transition charges, other components of net periodic pension and postretirement benefit cost/(income), the loss on extinguishment of debt, the net gain on the sale of non-operating assets, certain net gains, the proportional share of net income from our joint venture formed to develop the excess property adjacent to our home office facility in Plano, Texas (Home Office Land Joint Venture), the tax impact for the allocation of income taxes to other comprehensive income items related to our pension plans and interest rate swaps and the impact of tax reform. Unlike other operating expenses, restructuring and management transition charges, the loss on extinguishment of debt, the net gain on the sale of non-operating assets, certain net gains, the proportional share of net income from the Home Office Land Joint Venture, the tax impact for the allocation of income taxes to other comprehensive income items related to our pension plans and interest rate swaps and the impact of tax reform are not directly related to our ongoing core business operations, which consist of selling merchandise and services to consumers through our department stores and our website at [jcpenny.com](http://jcpenny.com). Further, our non-GAAP adjustments are for non-operating associated activities such as closed store impairments included in restructuring and management transition charges and such as joint venture earnings from the sale of excess land included in the proportional share of net income from our Home Office Land Joint Venture. Additionally, other components of net periodic pension and postretirement benefit cost/(income) which is determined using numerous complex assumptions about changes in pension assets and liabilities that are subject to factors beyond our control, such as market volatility. We believe it is useful for investors to understand the impact of restructuring and management transition charges, other components of net periodic pension and postretirement benefit cost/(income), the loss on extinguishment of debt, the net gain on the sale of non-operating assets, certain net gains, the proportional share of net income from the Home Office Land Joint Venture, the tax impact for the allocation of income taxes to other comprehensive income items related to our pension plans and interest rate swaps and the impact of tax reform 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.



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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)	2018	2017	2016	2015	2014
Net income/(loss) from continuing operations	\$(255)	\$(118)	\$(17)	\$(513)	\$(717)
Add: Net interest expense	313	325	363	405	406
Add: Loss on extinguishment of debt	23	33	30	10	34
Add: Income tax expense/(benefit)	(16)	(126)	1	9	23
Add: Depreciation and amortization	556	570	609	616	631
Add: Restructuring and management transition charges	22	184	26	84	87
Add: Other components of net periodic pension and postretirement benefit cost/(income)	(71)	98	(53)	93	(109)
Less: Net gain on the sale of non-operating assets	—	—	(5)	(9)	(25)
Less: Proportional share of net income from home office land joint venture	(4)	(31)	(28)	(41)	(53)
Less: Certain net gains	—	—	—	—	(88)
Adjusted EBITDA (non-GAAP)	\$568	\$935	\$926	\$654	\$189

(1) Represents the net gain on the sale of one department store location and the net gain recognized on a payment received from a landlord to terminate an existing lease prior to its original expiration date.

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

(\$ in millions, except per share data)	2018	2017	2016	2015	2014
Net income/(loss) (GAAP) from continuing operations	\$(255)	\$(118)	\$(17)	\$(513)	\$(717)
Diluted EPS (GAAP) from continuing operations	\$(0.81)	\$(0.38)	\$(0.06)	\$(1.68)	\$(2.35)
Add: Restructuring and management transition charges	22	184	26	84	87
Add: Other components of net periodic pension and postretirement benefit cost/(income)	(71)	98	(53)	93	(109)
Add: Loss on extinguishment of debt	23	33	30	10	34
Less: Net gain on the sale of non-operating assets	—	—	(5)	(9)	(25)
Less: Proportional share of net income from home office land joint venture	(4)	(31)	(28)	(41)	(53)
Less: Certain net gains	—	—	—	—	(88)
Less: Aggregate tax impact related to the above adjustments	—	(2)	(2)	(2)	2
Less: Tax impact resulting from other comprehensive income allocation	(11)	(60)	(12)	—	—
Less: Impact of tax reform	—	(75)	—	—	—
Adjusted net income/(loss) (non-GAAP) from continuing operations	\$(296)	\$31	\$(59)	\$(376)	\$(869)
Adjusted diluted EPS (non-GAAP) from continuing operations	\$(0.94)	\$0.10	\$(0.19)	\$(1.23)	\$(2.85)

(1) Represents the net gain on the sale of one department store location and the net gain recognized on a payment received from a landlord to terminate an existing lease prior to its original expiration date.

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

(3) Tax effect represents state taxes payable in separately filing states related to the sale of assets

(4) Represents the tax benefits related to the allocation of tax expense to other comprehensive income items, including the amortization of actuarial losses and prior service costs related to the Primary Pension Plan and the results of our

annual remeasurement of our pension plans.

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## Financial Condition and Liquidity

## Overview

Our primary sources of liquidity are cash generated from operations, available cash and cash equivalents and access to our Revolving Credit Facility. During 2018, we executed the following transactions:

We completed the sale-leasebacks of our Milwaukee, Wisconsin and Manchester, Connecticut distribution facilities for net sales prices of \$30 million and \$68 million, respectively, and recorded net gains of \$12 million and \$38 million, respectively.

On March 12, 2018, JCP issued \$400 million aggregate principal amount of senior secured second priority notes due 2025 with a 8.625% rate (2025 Notes). The net proceeds from the 2025 Notes were used for the tender consideration for JCP's contemporaneous cash tender offers for \$125 million aggregate principal amount of its 2019 Notes and \$250 million aggregate principal amount of its 2020 Notes.

We ended the year with \$333 million of cash and cash equivalents, a decrease of \$125 million from the prior year. As of the end of 2018, based on our borrowing base and amounts reserved for outstanding standby letters of credit, we had \$1,530 million available for future borrowings under the Revolving Credit Facility, providing total available liquidity of approximately \$1.9 billion.

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

(\$ in millions)	2018	2017	2016
Cash and cash equivalents	\$333	\$458	\$887
Merchandise inventory	2,437	2,803	2,896
Property and equipment, net	3,938	4,281	4,599
Total debt and other financing obligations <sup>(1)</sup>	4,020	4,232	4,836
Stockholders' equity	1,170	1,383	1,360
Total capital	5,190	5,615	6,196
Maximum capacity under our Revolving Credit Facility	2,350	2,350	2,350
Cash flow from operating activities	359	454	334
Free cash flow (non-GAAP) <sup>(2)</sup>	111	213	3
Capital expenditures	392	395	427
Ratios:			
Debt-to-total capital <sup>(3)</sup>	77.5 %	75.4 %	78.1 %
Cash-to-debt <sup>(4)</sup>	8.3 %	10.8 %	18.3 %

(1) Includes long-term debt, net of unamortized debt issuance costs, including current maturities, capital leases, financing obligation, note payable and any borrowings under our Revolving Credit Facility.

(2) See below for a discussion of this non-GAAP financial measure and reconciliation to its most directly comparable GAAP financial measure.

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

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

## Free Cash Flow (Non-GAAP)

Free cash flow is a key financial measure of our ability to generate additional cash from operating our business. We define free cash flow as cash flow from operating activities, less capital expenditures and dividends paid, plus the proceeds from the sale of operating assets. Free cash flow is a relevant indicator of our ability to repay maturing debt, revise our dividend policy or fund other uses of capital that we believe will enhance stockholder value. Free cash flow is considered a non-GAAP financial measure under the rules of the SEC. Free cash flow is limited and does not



represent remaining cash flow available for discretionary expenditures due to the fact that the measure does not deduct payments required for debt maturities, 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.

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The following table reconciles net cash provided by/(used in) operating activities, the most directly comparable GAAP 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.

(\$ in millions)	2018	2017	2016	2015	2014
Net cash provided by/(used in) operating activities (GAAP)	\$359	\$454	\$334	\$440	\$239
Less:					
Capital expenditures	(392 )	(395 )	(427 )	(320 )	(252 )
Plus:					
Proceeds from sale of operating assets	144	154	96	11	70
Free cash flow (non-GAAP)	\$111	\$213	\$3	\$131	\$57
Net cash provided by/(used in) investing activities <sup>(1)</sup>	\$(244)	\$(229)	\$(316)	\$(296)	\$(142)
Net cash provided by/(used in) financing activities	\$(240)	\$(654)	\$(31 )	\$(562)	\$(294)

(1) 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.

During 2018, free cash flow decreased \$102 million to an inflow of \$111 million compared to an inflow of \$213 million in 2017. Free cash flow declined primarily due to lower operating performance in 2018 when compared to 2017.

**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 and inventory levels.

In 2018, cash flow from operating activities was an inflow of \$359 million, a decrease of \$95 million compared to an inflow of \$454 million during the same period in the prior year. Our net loss for 2018 of \$255 million included significant charges and credits that did not impact operating cash flow, including depreciation and amortization, certain restructuring and management transition charges, loss on extinguishment of debt, benefit plans, the sale of operating assets and stock-based compensation. Overall, the decrease in cash from operations was primarily due to lower operating performance. In addition, during 2018, we received an aggregate cash distribution of \$4 million from the Home Office Land Joint Venture, of which \$1 million was included in operating activities and \$3 million was classified as investing activities, as it was considered a return of investment as the aggregate cash distribution exceeded our proportional share of the cumulative earnings of the joint venture by this amount. Cash flows from operating activities also included construction allowances from landlords of \$23 million, which provided additional cash that was used to fund a portion of our capital expenditures in investing activities.

Merchandise inventory decreased \$366 million to \$2,437 million, or 13.1%, as of the end of 2018 compared to \$2,803 million as of the end of 2017. Inventory turns for 2018, 2017 and 2016 were 2.75, 2.73 and 2.59, respectively. Merchandise accounts payable decreased \$126 million at the end of 2018 compared to 2017.

In 2017, cash flow from operating activities was an inflow of \$454 million, an increase of \$120 million compared to an inflow of \$334 million during the prior year. Our net loss as of the end of 2017 of \$118 million included significant charges and credits that did not impact operating cash flow, including depreciation and amortization, certain restructuring charges, loss on extinguishment of debt, benefit plans, the sale of operating and non-operating assets and stock-based compensation. Overall, the increase in cash from operations was driven primarily by our improved inventory position. In addition, during 2017 we received an aggregate cash distribution of \$40 million from the Home Office Land Joint Venture of which \$31 million was included in operating activities and \$9 million was classified as investing activities as it was considered a return of investment as the aggregate cash distribution exceeded our

proportional share of the cumulative earnings of the joint venture by this amount. Cash flows from operating activities also included construction allowances from landlords of \$20 million, which provided additional cash that was used to fund a portion of our capital expenditures in investing activities.

#### Investing Activities

In 2018, investing activities was a cash outflow of \$244 million compared to an outflow of \$229 million for 2017. The increase in the cash outflow from investing activities was primarily a result of lower proceeds from the sale of operating assets.

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For 2018, capital expenditures were \$392 million. At the end of the year, we also had an additional \$43 million of accrued capital expenditures, which will be paid in subsequent periods. The capital expenditures for 2018 related primarily to investments in our store environment and store facility improvements, including investments in 27 new Sephora inside JCPenney stores and investments in information technology in both our home office and stores. We received construction allowances from landlords of \$23 million in 2018, which are classified as operating activities, to fund a portion of the capital expenditures related to store leasehold improvements. These funds have been recorded as deferred rent credits in the Consolidated Balance Sheets and are amortized as an offset to rent expense. Additionally, we received net cash proceeds of \$30 million and \$68 million, respectively for the sale-leasebacks of our Milwaukee, Wisconsin and Manchester, Connecticut distribution facilities.

In 2017, investing activities was a cash outflow of \$229 million compared to an outflow of \$316 million for 2016. The decrease in the cash outflow from investing activities was primarily a result of lower capital expenditures and the increase in proceeds from the sale of operating assets.

For 2017, capital expenditures were \$395 million. At the end of the year, we also had an additional \$58 million of accrued capital expenditures, which were paid in 2018. The capital expenditures for 2017 related primarily to investments in our store environment and store facility improvements, including investments in 70 new and 32 expanded Sephora inside JCPenney stores, the roll out of 100 new appliance showrooms and investments in information technology in both our home office and stores. We also received construction allowances from landlords of \$20 million in 2017. Additionally, we received net cash proceeds of \$131 million for the sale of our Buena Park, California distribution facility.

The following provides a breakdown of capital expenditures:

(\$ in millions)	2018	2017	2016
Store renewals and updates	\$141	\$178	\$240
Capitalized software	129	123	100
New and relocated stores	13	5	17
Technology and other	109	89	70
Total	\$392	\$395	\$427

We expect our investment in capital expenditures for 2019 to be approximately \$300 to \$325 million, net of construction allowances from landlords, which will relate primarily to store environment investments and information technology. Our plan is to fund these expenditures with cash flow from operations and existing cash and cash equivalents.

#### Financing Activities

In 2018, cash flows from financing activities were an outflow of \$240 million compared to an outflow of \$654 million for the same period in the prior year.

During 2018, we issued \$400 million aggregate principal amount of senior secured second priority notes due 2025 and incurred \$7 million in related issuance costs and paid \$395 million to settle cash tender offers with respect to portions of our outstanding 2019 Notes and 2020 Notes. Additionally, we paid \$190 million to retire outstanding debt at maturity and we paid \$42 million in required principal payments on outstanding debt and \$6 million in required payments on our capital leases, financing obligation and note payable.

During 2017, we paid \$334 million to settle cash tender offers with respect to portions of our outstanding 2018 Notes and 2019 Notes. Additionally, we repurchased and retired \$40 million aggregate principal amount of our 2020 Notes, repaid \$220 million of debt at maturity and repaid \$16 million on our capital leases and note payable.

#### Cash Flow and Financing Outlook

Our primary sources of liquidity are cash generated from operations, available cash and cash equivalents and access to our Revolving Credit Facility. Our cash flows may be impacted by many factors including the economic environment, consumer confidence, competitive conditions in the retail industry and the success of our strategies. For 2019, we believe that our existing liquidity will be adequate to fund our capital expenditures and working capital needs; however, in accordance with our long-term financing strategy, we may access the capital markets opportunistically.

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## 2017 Credit Facility

The Company has a \$2,350 million Revolving Credit Facility. As of the end of 2018, we had no borrowings outstanding under the Revolving Credit Facility. In addition, as of the end of 2018, based on our borrowing base, we had \$1,685 million available for borrowing under the facility, of which \$155 million was reserved for outstanding standby letters of credit, none of which have been drawn on, leaving \$1,530 million for future borrowings. The applicable rate for standby and import letters of credit were 1.75% and 0.875%, respectively, while the commitment fee was 0.375% for the unused portion of the Revolving Credit Facility.

## Credit Ratings

Our credit ratings and outlook as of March 15, 2019 were as follows:

	Corporate	Outlook
Fitch Ratings	B-	Stable
Moody's Investors Service, Inc.	B3	Stable
Standard & Poor's Ratings Services	CCC+	Negative

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

## Contractual Obligations and Commitments

Aggregated information about our obligations and commitments to make future contractual payments, such as debt and lease agreements, and contingent commitments as of February 2, 2019 is presented in the following table.

(\$ in millions)	Total	Less Than 1 Year	1 - 3 Years	3 - 5 Years	More Than 5 Years
Recorded contractual obligations:					
Total debt, excluding unamortized debt issuance costs, capital leases, financing obligation and note payable	\$3,856	\$92	\$194	\$1,967	\$1,603
Capital leases, financing obligation and note payable	264	21	38	38	167
Unrecognized tax benefits <sup>(1)</sup>	35	2	—	—	33
Contributions to non-qualified supplemental retirement plans <sup>(2)</sup>	146	30	48	16	52
	\$4,301	\$145	\$280	\$2,021	\$1,855
Unrecorded contractual obligations:					
Interest payments on long-term debt <sup>(3)</sup>	\$4,605	\$245	<sup>(4)</sup> \$466	\$406	\$3,488
Operating leases <sup>(5)</sup>	2,440	190	341	283	1,626
Standby and import letters of credit <sup>(6)</sup>	155	155	—	—	—
Surety bonds <sup>(7)</sup>	67	67	—	—	—
Contractual obligations <sup>(8)</sup>	181	92	88	1	—
Purchase orders <sup>(9)</sup>	1,792	1,792	—	—	—
	\$9,240	\$2,541	\$895	\$690	\$5,114
Total	\$13,541	\$2,686	\$1,175	\$2,711	\$6,969

Represents management's best estimate of the payments related to tax reserves for uncertain income tax positions.

(1) Based on the nature of these liabilities, the actual payments in any given year could vary significantly from these amounts. See Note 19 to the Consolidated Financial Statements.

(2) Represents expected cash payments through 2028.

(3) Includes interest expense related to our 2016 Term Loan Facility of \$364 million that was calculated using its interest rate as of February 2, 2019 for the anticipated amount outstanding each period, which assumes the required

principal payments for the loan remain the same each quarter.

(4) Includes \$71 million of accrued interest that is included in our Consolidated Balance Sheet at February 2, 2019.

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- (5) Represents future minimum lease payments for non-cancelable operating leases, including renewals determined to be reasonably assured. Future minimum lease payments have not been reduced for sublease income. Standby letters of credit, which totaled \$155 million, are issued as collateral to a third-party administrator for
- (6) self-insured workers' compensation and general liability claims and to support our merchandise initiatives. There were no outstanding import letters of credit at February 2, 2019.
- (7) Surety bonds are primarily for previously incurred and expensed obligations related to workers' compensation and general liability claims.
- (8) Consists primarily of (a) minimum purchase requirements for exclusive merchandise and fixtures; (b) royalty obligations; and (c) minimum obligations for professional services, energy services, software maintenance and network services.
- (9) Amounts committed under open purchase orders for merchandise inventory of which a significant portion are cancelable without penalty prior to a date that precedes the vendor's scheduled shipment date.

### Off-Balance Sheet Arrangements

Management considers all on- and off-balance sheet debt in evaluating our overall liquidity position and capital structure. Other than operating leases, which are included in the Contractual Obligations and Commitments table, we do not have any material off-balance sheet financing. See detailed disclosure regarding operating leases in Note 15 to the Consolidated Financial Statements.

We do not have any additional arrangements or relationships with entities that are not consolidated into the 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.

### Critical Accounting Policies

The preparation of our financial statements in conformity with accounting principles generally accepted in the United States requires that we make estimates and use assumptions that in some instances may materially affect amounts reported in the accompanying Consolidated Financial Statements. In preparing these financial statements, we have made our best estimates and judgments based on history and current trends, as well as other factors that we believe are relevant at the time of the preparation of our Consolidated Financial Statements. Historically, actual results have not differed materially from estimates; however, future events and their effects cannot be determined with certainty and as a result, actual results could differ from our assumptions and estimates.

See Note 2 to the Consolidated Financial Statements for a description of our significant accounting policies.

### Inventory Valuation under the Retail Method

Inventories are valued at the lower of cost (using the first-in, first-out or "FIFO" method) or market, determined under the Retail Inventory Method (RIM). Under RIM, retail values of merchandise groups are converted to a cost basis by applying the specific average cost-to-retail ratio related to each merchandise grouping. RIM inherently requires management judgment and certain estimates that may significantly impact the ending inventory valuation at cost, as well as our Cost of goods sold. The most significant estimates are permanent reductions to retail prices (markdowns) and permanent devaluation of inventory (markdown accruals) used primarily to clear seasonal merchandise or otherwise slow-moving inventory and inventory shortage (shrinkage).



Permanent markdowns and markdown accruals are designated for clearance activity and are recorded at the point of decision, when the utility of inventory has diminished, versus the point of sale. Factors considered in the determination of permanent markdowns and markdown accruals include current and anticipated demand, customer preferences, age of the merchandise and style trends. Under RIM, permanent markdowns and markdown accruals result in the devaluation of inventory and the corresponding increase to cost of goods sold is recognized in the period the decision to execute the markdown is made. Shrinkage accruals are estimated as a percent of sales for a given period based on physical inventories or cycle count activities. Physical inventory counts for stores are taken at least annually and cycle count activities for distribution centers and regional warehouses are executed on a daily basis. Inventory records and shrinkage accruals are adjusted appropriately based on the actual results from physical inventories and cycle counts. The shrinkage rate from the most recent physical inventory and cycle count activity, in combination with current events and historical experience, is used as the standard for the shrinkage accrual rate for the next inventory cycle or cycle count activity. Historically, our actual physical inventory and cycle counts results have

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shown our estimates to be reliable. Based on prior experience, we do not believe that the actual results will differ significantly from the assumptions used in these estimates.

### Valuation of Long-Lived and Indefinite-Lived Assets

#### Long-Lived Assets

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

We recognize impairment losses in the earliest period that it is determined a loss has occurred. The carrying value is adjusted to the new carrying value and any subsequent increases in fair value are not recorded. If it is determined that the estimated remaining useful life of the asset should be decreased, the periodic depreciation expense is adjusted based on the new carrying value of the asset. Impairment losses totaling \$52 million in 2018 related to the Company's three airplanes that were sold during the year were recorded in the Consolidated Statement of Operations in the line item Real estate and other, net. Impairment losses totaling \$77 million in 2017 that related to the Company's closure of 138 stores were recorded in the Consolidated Statement of Operations in the line item Restructuring and management transition.

While we do not believe there is a reasonable likelihood that there will be a material change in our estimates or assumptions used to calculate long-lived asset impairments, if actual results are not consistent with our current estimates and assumptions, we may be exposed to additional impairment charges, which could be material to our results of operations.

#### Indefinite-Lived Assets

We assess the recoverability of indefinite-lived intangible assets at least annually during the fourth quarter of our fiscal year or whenever events or changes in circumstances indicate that the carrying amount of the indefinite-lived intangible asset may not be fully recoverable. Examples of a change in events or circumstances include, but are not limited to, a decrease in the market price of the asset, a history of cash flow losses related to the use of the asset or a significant adverse change in the extent or manner in which an asset is being used. For our 2018 annual impairment test, we tested our indefinite-lived intangible assets utilizing the relief from royalty method to determine the estimated fair value for each indefinite-lived intangible asset. The relief from royalty method estimates our theoretical royalty savings from ownership of the intangible asset. Key assumptions used in this model include discount rates, royalty rates, growth rates, sales projections and terminal value rates. Discount rates, royalty rates, growth rates and sales projections are the assumptions most sensitive and susceptible to change as they require significant management judgment. Discount rates used are similar to the rates estimated by the weighted average cost of capital considering any differences in company-specific risk factors. Royalty rates are established by management based on comparable trademark licensing agreements in the market. Operational management, considering industry and company-specific historical and projected data, develops growth rates and sales projections associated with each indefinite-lived intangible asset. Terminal value rate determination follows common methodology of capturing the present value of perpetual sales estimates beyond the last projected period assuming a constant weighted average cost of capital and

long-term growth rates.

While we do not believe there is a reasonable likelihood that there will be a material change in our estimates or assumptions used to calculate indefinite-lived asset impairments, if actual results are not consistent with our current estimates and assumptions, we may be exposed to additional impairment charges, which could be material to our results of operations.

#### Valuation of Deferred Tax Assets

We account for income taxes using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in

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income in the period that includes the enactment date. A valuation allowance is recorded to reduce the carrying amounts of deferred tax assets unless it is more likely than not such assets will be realized.

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

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

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

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

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

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

Future book pre-tax losses will require additional valuation allowances to offset the deferred tax assets created. A sustained period of profitability is required before we would change our need for a valuation allowance against our net deferred tax assets. Additionally, under the U.S. Tax Cuts and Jobs Act, additional NOLs that the Company may recognize in the future would not expire but would only be available to offset up to 80% of the Company's future taxable income.

See Note 19 to the Consolidated Financial Statements for more information regarding income taxes and also Risk Factors, Item 1A.

#### Pension

##### Pension Accounting

We maintain a qualified funded defined benefit pension plan (Primary Pension Plan) and smaller non-qualified unfunded supplemental defined benefit plans. The determination of pension expense is the result of actuarial calculations that are based on important assumptions about pension assets and liabilities. The most important of these are the expected rate of return on assets and the discount rate assumptions. These assumptions require significant judgment and a change in any one of them

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could have a material impact on pension expense reported in our Consolidated Statements of Operations and Consolidated Statements of Comprehensive Income/(Loss), as well as in the assets, liability and equity sections of the Consolidated Balance Sheets.

The following table reflects our expected rate of return and discount rate assumptions:

	2018	2017	2016
Expected return on plan assets	6.50%	6.50%	6.75%
Discount rate for pension expense	3.98%	4.40%	4.73%
Discount rate for pension obligation	4.33%	3.98%	4.40%

**Return on Plan Assets and Impact on Earnings**

For the Primary Pension Plan, we apply our expected return on plan assets using fair market value as of the annual measurement date. The fair market value method results in greater volatility to our pension expense than the more commonly used calculated value method (referred to as smoothing of assets). Our Primary Pension Plan asset base consists of a mix of equities (U.S., non-U.S. and private), fixed income (investment-grade and high-yield), real estate (private and public) and alternative asset classes.

The expected return on plan assets is based on the plan's long-term asset allocation policy, historical returns for plan assets and overall capital market returns, taking into account current and expected market conditions.

**Discount Rate**

The discount rate used to measure pension expense each year is the rate as of the beginning of the year (i.e., the prior measurement date). The discount rate, as determined by the plan actuary, is based on a hypothetical AA yield curve represented by a series of bonds maturing over the next 30 years, designed to match the corresponding pension benefit cash payments to retirees.

For 2018, the discount rate to measure pension expense was 3.98% compared to 4.40% in 2017. The discount rate to measure the pension obligations increased to 4.33% as of February 2, 2019 from 3.98% as of February 3, 2018.

**Sensitivity**

The sensitivity of pension expense to a plus or minus one-half of one percent of expected return on assets is a decrease or increase in pension expense of approximately \$15 million. An increase in the discount rate of one-half of one percent would increase the 2019 pension expense by approximately \$6 million and a decrease in the discount rate of one-half of one percent would decrease pension expense by approximately \$7 million.

**Pension Funding**

Funding requirements for our Primary Pension Plan are determined under Employee Retirement Income Security Act of 1974 (ERISA) rules, as amended by the Pension Protection Act of 2006. As a result of the funded status of the Primary Pension Plan, we are not required to make cash contributions in 2019.

**Recent Accounting Pronouncements**

Refer to Note 4 to the Consolidated Financial Statements for discussion of recent accounting pronouncements.

**Cautionary Statement Regarding Forward-Looking Information**

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, which reflect our current view of future events and financial performance. Words such as "expect" and similar expressions identify forward-looking statements, which include, but are not limited to, statements regarding sales, cost of goods sold, selling, general and administrative expenses, earnings, cash flows and

liquidity. Forward-looking statements are based only on the Company's current assumptions and views of future events and financial performance. They are subject to known and unknown risks and uncertainties, many of which are outside of the Company's control, that may cause the Company's actual results to be materially different from planned or expected results. Those risks and uncertainties include, but are not limited to, general economic conditions, including inflation, recession, unemployment levels, consumer confidence and spending patterns, credit availability and debt levels, changes in store traffic trends, the cost of goods, more stringent or costly payment terms and/or the decision by a significant number of vendors not to sell us merchandise on a timely basis or at all,

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trade restrictions, the ability to monetize non-core assets on acceptable terms, the ability to implement our strategic plan including our omnichannel initiatives, customer acceptance of our strategies, our ability to attract, motivate and retain key executives and other associates, the impact of cost reduction initiatives, our ability to generate or maintain liquidity, implementation of new systems and platforms, changes in tariff, freight and shipping rates, changes in the cost of fuel and other energy and transportation costs, disruptions and congestion at ports through which we import goods, increases in wage and benefit costs, competition and retail industry consolidations, interest rate fluctuations, dollar and other currency valuations, the impact of weather conditions, risks associated with war, an act of terrorism or pandemic, the ability of the federal government to fund and conduct its operations, a systems failure and/or security breach that results in the theft, transfer or unauthorized disclosure of customer, employee or Company information, legal and regulatory proceedings and the Company's ability to access the debt or equity markets on favorable terms or at all. There can be no assurances that the Company will achieve expected results, and actual results may be materially less than expectations. While we believe that our assumptions are reasonable, we caution that it is impossible to predict the degree to which any such factors could cause actual results to differ materially from predicted results. For additional discussion on risks and uncertainties, see Part I, Item 1A, Risk Factors, above. We intend the forward-looking statements in this Annual Report on Form 10-K to speak only as of the date of this report and do not undertake to update or revise such statements as more information becomes available.

### Item 7A. Quantitative and Qualitative Disclosures about Market Risk

All of our outstanding notes and debentures as of February 2, 2019 are at fixed interest rates and would not be affected by interest rate changes. The Revolving Credit Facility borrowings under the 2017 Credit Facility are affected by interest rate changes. As of February 2, 2019, we had no borrowings outstanding under the Revolving Credit Facility. The Company's 2016 Term Loan Facility bears interest at a variable rate of LIBOR plus 4.25%. To manage the fluctuation of interest, the Company entered into interest rate swap agreements with notional amounts totaling \$1,250 million to fix a portion of our variable LIBOR-based interest payments. The interest rate swap agreements, which were effective May 7, 2015, have a weighted-average fixed rate of 2.04%, mature on May 7, 2020 and have been designated as cash flow hedges. The Company entered into additional interest rate swap agreements with notional amounts totaling \$750 million to fix a portion of our variable LIBOR-based interest payments. The interest rate swap agreements have a weighted-average fixed rate of 3.135%, are effective from May 7, 2020 to May 7, 2025 and have been designated as cash flow hedges. Accordingly, a 100 basis point increase in LIBOR interest rates would result in additional annual interest expense of \$16 million under the 2016 Term Loan Facility and \$13 million in less annual interest expense under the interest rate swap agreements.

The effects of changes in the U.S. equity and bond markets serve to increase or decrease the value of assets in our Primary Pension Plan. We seek to manage exposure to adverse equity and bond returns by maintaining diversified investment portfolios and utilizing professional investment managers.

### Item 8. Financial Statements and Supplementary Data

See the Index to Consolidated Financial Statements on page 57.

### Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

### Item 9A. Controls and Procedures

### Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

The management of our Company, under the supervision and with the participation of our principal executive officer and principal financial officer, conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the Exchange Act)) as of the end of the period covered by this Annual Report on Form 10-K. Based on this evaluation, our principal executive officer and principal financial officer concluded that 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 (i) is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and (ii) is accumulated and communicated to management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

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Management's Report on Internal Control over Financial Reporting

The management of our Company is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act). The management of our Company has assessed the effectiveness of our Company's internal control over financial reporting as of February 2, 2019. In making this assessment, management used criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control–Integrated Framework (2013). Based on its assessment, the management of our Company believes that, as of February 2, 2019, our Company's internal control over financial reporting is effective based on those criteria.

The Company's independent registered public accounting firm, KPMG LLP, has audited the financial statements included in this Annual Report on Form 10-K and has issued an attestation report on the effectiveness of our Company's internal control over financial reporting. Their report follows.

Changes in Internal Control over Financial Reporting

There were no changes in our Company's internal control over financial reporting during the fourth quarter ended February 2, 2019 that have materially affected, or are reasonably likely to materially affect, our Company's internal control over financial reporting.

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Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors

J. C. Penney Company, Inc.:

Opinion on Internal Control Over Financial Reporting

We have audited J. C. Penney Company, Inc.'s and subsidiaries' (the Company) internal control over financial reporting as of February 2, 2019, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of February 2, 2019, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of February 2, 2019 and February 3, 2018, the related consolidated statements of operations, comprehensive income/(loss), stockholders' equity, and cash flows for each of the years in the three-year period ended February 2, 2019, and the related notes (collectively, the consolidated financial statements), and our report dated March 19, 2019 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Management's Report on Internal Control Over Financial Reporting". Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB. We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG LLP

Dallas, Texas  
March 19, 2019

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Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by Item 10 with respect to executive officers is included within Item 1 in Part I of this Annual Report on Form 10-K under the caption “Executive Officers of the Registrant.”

The information required by Item 10 with respect to directors, audit committee, audit committee financial experts and Section 16(a) beneficial ownership reporting compliance is included under the captions “Board Committees–Audit Committee,” “Section 16(a) Beneficial Ownership Reporting Compliance” and “Proposal 1 - Election of Directors” in our definitive proxy statement for 2019, which will be filed with the Securities and Exchange Commission pursuant to Regulation 14A and is incorporated herein by reference.

Code of Ethics and Corporate Governance Guidelines

We have adopted a code of ethics for officers and employees, which applies to, among others, our principal executive officer, principal financial officer and principal accounting officer, and which is known as the “Statement of Business Ethics.” We have also adopted certain ethical principles and policies for our directors, which are set forth in Article V of our Corporate Governance Guidelines. The Statement of Business Ethics and Corporate Governance Guidelines are available on our website at [www.jcpenney.com](http://www.jcpenney.com). Additionally, we will provide copies of these documents without charge upon request made to:

J. C. Penney Company, Inc.  
Office of Investor Relations  
6501 Legacy Drive  
Plano, Texas 75024  
(Telephone 972-431-5500)

Our Company intends to satisfy the disclosure requirement under Item 5.05 of Form 8-K regarding an amendment to or waiver of any provision of the Statement of Business Ethics that applies to any officer of the Company by posting such information on our website at [www.jcpenney.com](http://www.jcpenney.com).

Item 11. Executive Compensation

The information required by Item 11 is included under the captions “Compensation Committee Interlocks and Insider Participation,” “Compensation Discussion and Analysis,” “Report of the Human Resources and Compensation Committee,” “Summary Compensation Table,” “Grants of Plan-Based Awards for Fiscal 2018,” “Outstanding Equity Awards at Fiscal Year-End 2018,” “Option Exercises and Stock Vested for Fiscal 2018,” “Nonqualified Deferred Compensation for Fiscal 2018,” “Potential Payments and Benefits on Termination of Employment,” “Director Compensation for Fiscal 2018,” and “CEO Pay Ratio” in our Company’s definitive proxy statement for 2019, which will be filed with the Securities and Exchange Commission pursuant to Regulation 14A and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by Item 12 with respect to beneficial ownership of our Company’s common stock is included under the caption “Beneficial Ownership of Common Stock” and with respect to equity compensation plans is included under the caption “Equity Compensation Plan(s) Information” in our Company’s definitive proxy statement for 2019, which will be filed with the Securities and Exchange Commission pursuant to Regulation 14A and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by Item 13 is included under the captions “Policies and Procedures with Respect to Related Person Transactions” and “Board Independence” in our Company’s definitive proxy statement for 2019, which will be filed with the Securities and Exchange Commission pursuant to Regulation 14A and is incorporated herein by reference.

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Item 14. Principal Accounting Fees and Services

The information required by Item 14 is included under the captions “Audit and Other Fees” and “Audit Committee’s Pre-Approval Policies and Procedures” in our Company’s definitive proxy statement for 2019, which will be filed with the Securities and Exchange Commission pursuant to Regulation 14A and is incorporated herein by reference.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) Documents filed as part of this report:

1. Consolidated Financial Statements:

The Consolidated Financial Statements of J. C. Penney Company, Inc. and subsidiaries are listed in the accompanying "Index to Consolidated Financial Statements" on page 57.

2. Financial Statement Schedules:

Schedules have been omitted as they are inapplicable or not required under the rules, or the information has been submitted in the Consolidated Financial Statements and related financial information contained otherwise in this Annual Report on Form 10-K.

3. Exhibits:

Each management contract or compensatory plan or arrangement required to be filed as an exhibit to this Annual Report on Form 10-K is specifically identified in the Exhibit Index below and filed with or incorporated by reference in this report.





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## Exhibit Index

Exhibit No.	Exhibit Description	Incorporated by Reference			Filed Herewith (†) (as indicated)
		SEC Form	File No.	Exhibit Date	
2.1	<u>Agreement and Plan of Merger dated as of January 23, 2002, between JCP and Company</u>	8-K	001-15274	2	1/28/2002
3.1	<u>Restated Certificate of Incorporation of the Company, as amended to May 20, 2011</u>	10-Q	001-15274	3.1	6/8/2011
3.2	<u>Bylaws of the Company, as amended to July 20, 2016</u>	8-K	001-15274	3.1	7/21/2016
3.3	<u>Certificate of Designation, Preferences and Rights of Series C Junior Participating Preferred Stock</u>	8-K	001-15274	3.1	8/22/2013
4.1	<u>Indenture, dated as of October 1, 1982, between JCP and U.S. Bank National Association, Trustee (formerly First Trust of California, National Association, as Successor Trustee to Bank of America National Trust and Savings Association)</u>	10-K	001-00777	4(a)	4/19/1994
4.2	<u>First Supplemental Indenture, dated as of March 15, 1983, between JCP and U.S. Bank National Association, Trustee (formerly First Trust of California, National Association, as Successor Trustee to Bank of America National Trust and Savings Association)</u>	10-K	001-00777	4(b)	4/19/1994
4.3	<u>Second Supplemental Indenture, dated as of May 1, 1984, between JCP and U.S. Bank National Association, Trustee (formerly First Trust of California, National Association, as Successor Trustee to Bank of America National Trust and Savings Association)</u>	10-K	001-00777	4(c)	4/19/1994
4.4	<u>Third Supplemental Indenture, dated as of March 7, 1986, between JCP and U.S. Bank National Association, Trustee (formerly First Trust of California, National Association, as Successor Trustee to Bank of America National Trust and Savings Association)</u>	10-K	001-15274	4.4	3/19/2018
4.5	<u>Fourth Supplemental Indenture, dated as of June 7, 1991, between JCP and U.S. Bank National Association, Trustee (formerly First Trust of California, National Association, as Successor Trustee to Bank of America National Trust and Savings Association)</u>	S-3	033-41186	4(e)	6/13/1991
4.6	<u>Fifth Supplemental Indenture, dated as of January 27, 2002, among the Company, JCP and U.S. Bank National Association, Trustee (formerly First Trust of California, National Association, as Successor Trustee to Bank of America National Trust and Savings Association) to Indenture dated as of October 1, 1982</u>	10-K	001-15274	4(o)	4/25/2002
4.7	<u>Sixth Supplemental Indenture, dated as of May 20, 2013, among J. C. Penney Corporation, Inc., J. C. Penney Company, Inc., as co-obligor, and Wilmington Trust, National Association, as successor trustee</u>	8-K	001-15274	4.1	5/24/2013
4.8		S-3	033-53275	4(a)	4/26/1994

Indenture, dated as of April 1, 1994, between JCP and U.S. Bank National Association, Trustee (formerly First Trust of California, National Association, as Successor Trustee to Bank of America National Trust and Savings Association)

- 4.9 First Supplemental Indenture dated as of January 27, 2002, among the Company, JCP and U.S. Bank National Association, Trustee (formerly Bank of America National Trust and Savings Association) to Indenture dated as of April 1, 1994 10-K 001-15274 4(p) 4/25/2002

Other instruments evidencing long-term debt have not been filed as exhibits hereto because none of the debt authorized under any such instrument exceeds 10% of the total assets of the Registrant and its consolidated subsidiaries. The Registrant agrees to furnish a copy of any of its long-term debt instruments to the Securities and Exchange Commission upon request.

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Exhibit No.	Exhibit Description	Incorporated by Reference		Filed Herewith (†) (as indicated)
		SEC Form File No.	Filing Exhibit Date	
4.10	<u>Second Supplemental Indenture dated as of July 26, 2002, among the Company, JCP and U.S. Bank National Association, Trustee (formerly Bank of America National Trust and Savings Association) to Indenture dated as of April 1, 1994</u>	10-Q	001-15274 4	9/6/2002
4.11	<u>Indenture, dated September 15, 2014, among J. C. Penney Company, Inc., J. C. Penney Corporation, Inc. and Wilmington Trust, National Association</u>	8-K	001-15274 4.1	9/15/2014
4.12	<u>First Supplemental Indenture (including the form of Note), dated September 15, 2014, among J. C. Penney Company, Inc., J. C. Penney Corporation, Inc., and Wilmington Trust, National Association</u>	8-K	001-15274 4.2	9/15/2014
4.13	<u>Indenture (including the form of Note), dated as of June 23, 2016, among J. C. Penney Company, Inc., J. C. Penney Corporation, Inc., the subsidiary guarantors party thereto and Wilmington Trust, National Association</u>	8-K	001-15274 4.1	6/24/2016
4.14	<u>Amended and Restated Rights Agreement, dated as of January 27, 2014, by and between J. C. Penney Company, Inc. and Computershare Inc., as Rights Agent</u>	8-K	001-15274 4.1	1/28/2014
4.15	<u>First Amendment to the Amended and Restated Rights Agreement, dated as of January 23, 2017, by and between J. C. Penney Company, Inc. and Computershare Inc., as Rights Agent</u>	8-K	001-15274 4.1	1/23/2017
4.16	<u>Indenture (including the form of Note), dated as of March 12, 2018, among J. C. Penney Company, Inc., J. C. Penney Corporation, Inc., the subsidiary guarantors party thereto and Wilmington Trust, National Association</u>	8-K	001-15274 4.1	3/14/2018
10.1	<u>Credit Agreement dated as of June 20, 2014 among J. C. Penney Company, Inc., J. C. Penney Corporation, Inc., J. C. Penney Purchasing Corporation, the Lenders party thereto, Wells Fargo Bank, National Association, as Administrative Agent, Revolving Agent and Swingline Lender, Bank of America, N.A., as Term Agent, Wells Fargo Bank, National Association and Bank of America, N.A., as Co-Collateral Agents and Wells Fargo Bank, National Association, as LC Agent</u>	8-K	001-15274 10.1	6/23/2014
10.2	<u>Amendment No. 1 to Credit Agreement dated as of December 10, 2015 among J. C. Penney Company, Inc., J. C. Penney Corporation, Inc., J. C. Penney Purchasing Corporation, the guarantors party thereto, Wells Fargo</u>	8-K	001-15274 10.1	12/11/2015

	<u>Bank, National Association, as Administrative Agent and Revolving Agent, Bank of America, N.A., as Term Agent, Wells Fargo Bank, National Association and Bank of America, N.A., as co-collateral agents, and the lenders party thereto.</u>			
	<u>Amendment No. 2 to Credit Agreement, dated as of June 20, 2017, among J. C. Penney Company, Inc., J. C. Penney Corporation, Inc., J. C. Penney Purchasing Corporation, the subsidiary guarantors party thereto, the lenders party thereto, and Wells Fargo Bank, National Association, as administrative agent</u>			
10.3	8-K	001-15274	10.1	6/21/2017
	<u>Guarantee and Collateral Agreement dated as of June 20, 2014 among J. C. Penney Company, Inc., J. C. Penney Corporation, Inc., J. C. Penney Purchasing Corporation, the Subsidiaries of J. C. Penney Company, Inc. identified therein, and Wells Fargo Bank, National Association, as Administrative Agent</u>			
10.4	8-K	001-15274	10.2	6/23/2014
	<u>Restatement Agreement, dated as of June 23, 2016, among J. C. Penney Company, Inc., J. C. Penney Corporation, Inc., the subsidiary guarantors party thereto, the lenders party thereto and JPMorgan Chase Bank, N.A., as administrative agent</u>			
10.5	8-K	001-15274	10.1	6/24/2016
	<u>Amended and Restated Pledge and Security Agreement, dated as of June 23, 2016, among J. C. Penney Company, Inc., J. C. Penney Corporation, Inc., the subsidiary guarantors party thereto and Wilmington Trust, National Association, as collateral agent</u>			
10.6	8-K	001-15274	10.2	6/24/2016

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Exhibit No.	Exhibit Description	Incorporated by Reference			Filed Herewith (†) (as indicated)
		Form	SEC File No.	Exhibit Filing Date	
10.7	<u>Intercreditor and Collateral Cooperation Agreement, dated as of June 23, 2016, among Wells Fargo Bank, National Association, as representative for the ABL secured parties, Wilmington Trust, National Association, as representative for the term loan/notes secured parties, J. C. Penney Company, Inc., J. C. Penney Corporation, Inc. and the subsidiary guarantors party thereto</u>	8-K	001-15274	10.3	6/24/2016
10.8	<u>Pari Passu Intercreditor Agreement, dated as of June 23, 2016, among Wilmington Trust, National Association, as collateral agent, Wilmington Trust, National Association, as trustee, and JPMorgan Chase Bank, N.A., as administrative agent</u>	8-K	001-15274	10.4	6/24/2016
10.9	<u>Pledge and Security Agreement, dated as of March 12, 2018, among J. C. Penney Company, Inc., J. C. Penney Corporation, Inc., the subsidiary guarantors party thereto and Wilmington Trust, National Association, as collateral agent</u>	8-K	001-15274	10.1	3/14/2018
10.10	<u>Representative Joinder Agreement No. 1, dated as of March 12, 2018, to the Intercreditor and Collateral Cooperation Agreement, dated as of June 23, 2016, among Wells Fargo Bank, National Association, as representative for the ABL secured parties, Wilmington Trust, National Association, as representative for the term loan/notes secured parties, J. C. Penney Company, Inc., J. C. Penney Corporation, Inc. and the subsidiary guarantors party thereto</u>	8-K	001-15274	10.2	3/14/2018
10.11	<u>Junior Priority Intercreditor Agreement, dated as of March 12, 2018, between Wilmington Trust, National Association, as representative for the first lien secured parties, and Wilmington Trust, National Association, as representative for the junior lien secured parties</u>	8-K	001-15274	10.3	3/14/2018
10.12	<u>Amendment No. 3 to Credit Agreement, dated as of March 8, 2018, among J. C. Penney Company, Inc., J. C. Penney Corporation, Inc., J. C. Penney Purchasing Corporation, the guarantors party thereto, Wells Fargo Bank, National Association, as administrative agent, revolving agent and collateral agent, and the lenders party thereto</u>	8-K	001-15274	10.4	3/14/2018
10.13	<u>Amended and Restated Credit Card Program Agreement by and Between J. C. Penney</u>	10-Q	001-15274	10.1	11/28/2018

	<u>Corporation, Inc. and Synchrony Bank dated as of October 5, 2018</u>			
10.14**	J. C. Penney Company, Inc. Directors' Equity Program Tandem Restricted Stock Award/Stock Option Plan	10-K	001-00777 10(k)	4/24/1989
10.15**	J. C. Penney Company, Inc. 1993 Non-Associate Directors' Equity Plan	Def. Proxy Stmt.	001-00777 B	4/20/1993
10.16**	<u>February 1995 Amendment to J. C. Penney Company, Inc. 1993 Non-Associate Directors' Equity Plan</u>	10-K	001-00777 10(ii)(m)	4/18/1995
10.17**	Directors' Charitable Award Program	10-K	001-00777 10(r)	4/25/1990
10.18**	<u>J. C. Penney Company, Inc. 1997 Equity Compensation Plan</u>	Def. Proxy Stmt.	001-00777 A	4/11/1997
10.19**	<u>J. C. Penney Company, Inc. 2001 Equity Compensation Plan</u>	Def. Proxy Stmt.	001-00777 B	4/11/2001
10.20**	<u>J. C. Penney Company, Inc. 2005 Equity Compensation Plan, as amended through 12/10/2008</u>	10-K	001-15274 10.65	3/31/2009
10.21**	<u>J. C. Penney Company, Inc. 2009 Long-Term Incentive Plan</u>	Def. Proxy Stmt.	001-15274 Annex A	3/31/2009
10.22**	<u>J. C. Penney Company, Inc. 2012 Long-Term Incentive Plan</u>	Def. Proxy Stmt.	001-15274 Annex A	3/28/2012
10.23**	<u>J. C. Penney Company, Inc. 2014 Long-Term Incentive Plan</u>	Def. Proxy Stmt.	001-15274 Annex A	3/21/2014

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Exhibit No.	Exhibit Description	Incorporated by Reference			Filed Herewith (†) (as indicated)
		Form	SEC File No.	Exhibit Date	
10.24**	<u>J. C. Penney Company, Inc. 2016 Long-Term Incentive Plan</u>	Def. Proxy Stmt.	001-15274	Annex A	3/23/2016
10.25**	<u>JCP Supplemental Term Life Insurance Plan for Management Profit-Sharing Associates, as amended and restated effective July 1, 2007</u>	10-Q	001-15274	10.1	9/12/2007
10.26**	<u>Form of Notice of Restricted Stock Award - Non-Associate Director Annual Grant under the J. C. Penney Company, Inc. 2001 Equity Compensation Plan</u>	8-K	001-15274	10.5	2/15/2005
10.27**	<u>Form of Notice of Non-Associate Director Restricted Stock Unit Award under the J. C. Penney Company, Inc. 2001 Equity Compensation Plan</u>	8-K	001-15274	10.1	5/24/2005
10.28**	<u>Form of Notice of Non-Associate Director Restricted Stock Unit Award under the J. C. Penney Company, Inc. 2005 Equity Compensation Plan</u>	8-K	001-15274	10.1	11/18/2005
10.29**	<u>JCP Form of Executive Termination Pay Agreement, as amended and restated effective September 21, 2007</u>	8-K	001-15274	10.1	9/26/2007
10.30**	<u>JCP Form of Executive Termination Pay Agreement, as amended and restated effective December 3, 2013</u>	10-Q	001-15274	10.3	12/5/2013
10.31**	<u>JCP Form of Termination Pay Agreement</u>	8-K	001-15274	10.2	5/21/2015
10.32**	<u>JCP Form of Executive Termination Pay Agreement, as amended and restated effective December 17, 2015</u>	10-K	001-15274	10.33	3/16/2016
10.33**	<u>Form of Election to Receive Stock in Lieu of Cash Retainer(s) (J. C. Penney Company, Inc. 2005 Equity Compensation Plan)</u>	8-K	001-15274	10.1	5/19/2006
10.34**	<u>Form of Notice of Election to Defer under the J. C. Penney Company, Inc. Deferred Compensation Plan for Directors</u>	8-K	001-15274	10.2	5/19/2006
10.35**	<u>Form of Notice of Change of Factor for Deferral Account under the J. C. Penney Company, Inc. Deferred Compensation Plan for Directors</u>	8-K	001-15274	10.8	2/15/2005
10.36**	<u>Form of Notice of Change in the Amount of Fees Deferred under the J. C. Penney Company, Inc. Deferred Compensation Plan for Directors</u>	8-K	001-15274	10.3	5/19/2006
10.37**	<u>Form of Notice of Termination of Election to Defer under the J. C. Penney Company, Inc. Deferred Compensation Plan for Directors</u>	8-K	001-15274	10.4	5/19/2006
10.38**		8-K	001-15274	10.1	3/15/2007

	<u>Form of Notice of Grant of Stock Options under the J. C. Penney Company, Inc. 2005 Equity Compensation Plan</u>			
10.39**	<u>2008 Form of Notice of Grant of Stock Options under the J. C. Penney Company, Inc. 2005 Equity Compensation Plan</u>	8-K	001-15274 10.1	3/7/2008
10.40**	<u>JCP 2009 Change in Control Plan</u>	10-K	001-15274 10.60	3/31/2009
10.41**	<u>J. C. Penney Corporation, Inc. Change in Control Plan, effective January 10, 2011</u>	8-K	001-15274 10.1	6/14/2011
10.42**	<u>Form of Indemnification Trust Agreement between JCP and JPMorgan Chase Bank (formerly Chemical Bank) dated as of July 30, 1986, as amended March 30, 1987</u>	10-K	001-15274 10.47	3/19/2018
10.43**	<u>Second Amendment to Indemnification Trust Agreement between JCP and JPMorgan Chase Bank, effective as of January 27, 2002</u>	10-K	001-15274 10.53	3/31/2009
10.44**	<u>Third Amendment to Indemnification Trust Agreement between Company, JCP and JPMorgan Chase Bank, effective as of June 1, 2008</u>	10-Q	001-15274 10.2	9/10/2008
10.45**	<u>Fourth Amendment to Indemnification Trust Agreement between Company, JCP and SunTrust Bank, dated as of October 5, 2016</u>	10-Q	001-15274 10.1	11/30/2016
10.46**	<u>Form of Indemnification Agreement between Company, JCP and individual Indemnitees, as amended through January 27, 2002</u>	10-K	001-15274 10(ii)(ab)	4/25/2002
10.47**	<u>Special Rules for Reimbursements Subject to Code Section 409A under Indemnification Agreement between Company, JCP and individual Indemnitees, adopted December 9, 2008</u>	10-K	001-15274 10.56	3/31/2009



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Exhibit No.	Exhibit Description	Incorporated by Reference		Filed Herewith (†) (as indicated)
		SEC Form File No.	Filing Exhibit Date	
10.48**	<u>JCP Mirror Savings Plan, amended and restated effective December 31, 2007 and as further amended through December 9, 2008</u>	10-K	001-15274 10.61	3/31/2009
10.49**	<u>J. C. Penney Company, Inc. Deferred Compensation Plan for Directors, as amended and restated effective February 27, 2008 and as further amended through December 10, 2008</u>	10-K	001-15274 10.62	3/31/2009
10.50**	<u>Form of Notice of Grant of Stock Options under the J. C. Penney Company, Inc. 2009 Long-Term Incentive Plan</u>	10-Q	001-15274 10.2	9/9/2009
10.51**	<u>Form of Notice of Non-Associate Director Restricted Stock Unit Award under the J. C. Penney Company, Inc. 2009 Long-Term Incentive Plan</u>	10-Q	001-15274 10.4	9/9/2009
10.52**	<u>Amended and Restated J. C. Penney Corporation, Inc. Management Incentive Compensation Program, effective January 29, 2017</u>	10-K	001-15274 10.55	3/24/2017
10.53**	<u>Form of Notice of Grant of Stock Options under the J. C. Penney Company, Inc. 2012 Long-Term Incentive Plan</u>	10-K	001-15274 10.80	3/20/2013
10.54**	<u>Form of Notice of Non-Associate Director Restricted Stock Unit Award under the J. C. Penney Company, Inc. 2012 Long-Term Incentive Plan</u>	10-K	001-15274 10.82	3/20/2013
10.55**	<u>Form of Notice of 2014 Performance-Contingent Stock Option Grant under the J. C. Penney Company, Inc. 2012 Long-Term Incentive Plan</u>	8-K	001-15274 10.2	3/24/2014
10.56**	<u>Form of Notice of Restricted Stock Unit Grant under the J. C. Penney Company, Inc. 2014 Long-Term Incentive Plan</u>	10-Q	001-15274 10.4	6/4/2015
10.57**	<u>Form of Notice of Stock Option Grant under the J. C. Penney Company, Inc. 2014 Long-Term Incentive Plan</u>	10-Q	001-15274 10.5	6/4/2015
10.58**	<u>Form of Notice of Performance Unit Grant under the J. C. Penney Company, Inc. 2014 Long-Term Incentive Plan</u>	10-Q	001-15274 10.6	6/4/2015
10.59**	<u>Notice of Restricted Stock Unit Grant for Andrew Drexler</u>	10-K	001-15274 10.71	3/16/2016
10.60**	<u>Notice of Stock Option Grant for Andrew Drexler</u>	10-K	001-15274 10.72	3/16/2016
10.61**	<u>Form of Stock Option Grant Agreement under the J. C. Penney Company, Inc. 2014 Long-Term Incentive Plan</u>	10-K	001-15274 10.73	3/16/2016
10.62**	<u>Form of Restricted Stock Unit Grant Agreement under the J. C. Penney Company, Inc. 2014 Long-Term Incentive Plan</u>	10-K	001-15274 10.74	3/16/2016
10.63**		10-Q	001-15274 10.1	5/31/2016

	<u>Form of Performance Unit Grant Agreement under the J. C. Penney Company, Inc. 2014 Long-Term Incentive Plan</u>				
10.64**	<u>Form of Notice of Non-Associate Director Restricted Stock Unit Award under the J. C. Penney Company, Inc. 2016 Long-Term Incentive Plan</u>	10-Q	001-15274	10.2	8/30/2016
10.65**	<u>Form of Restricted Stock Unit Grant Agreement under the J. C. Penney Company, Inc. 2016 Long-Term Incentive Plan</u>	10-Q	001-15274	10.1	06/7/2017
10.66**	<u>Form of Performance Unit Grant Agreement under the J. C. Penney Company, Inc. 2016 Long-Term Incentive Plan</u>	10-Q	001-15274	10.2	06/7/2017
10.67**	<u>Form of Stock Option Grant Agreement under the J. C. Penney Company, Inc. 2016 Long-Term Incentive Plan</u>	10-Q	001-15274	10.3	06/7/2017
10.68**	<u>Form of Executive Termination Pay Agreement, effective September 14, 2018</u>	10-Q	001-15274	10.2	11/28/2018
10.69**	<u>Form of Cash Retention Award Agreement</u>	10-Q	001-15274	10.1	9/5/2018
10.70**	<u>Form of Notice of Non-Associate Director Restricted Stock Unit Award under the J. C. Penney Company, Inc. 2018 Long-Term Incentive Plan</u>	10-Q	001-15274	10.2	9/5/2018
10.71**	<u>Form of Restricted Stock Unit Grant Agreement under the J. C. Penney Company, Inc. 2018 Long-Term Incentive Plan</u>	10-Q	001-15274	10.3	9/5/2018
10.72**	<u>Form of Performance Cash Grant Agreement under the J. C. Penney Corporation, Inc. Management Incentive Compensation Program</u>	10-Q	001-15274	10.5	5/30/2018
10.73**	<u>Letter Agreement dated September 29, 2018 between J. C. Penney Company, Inc. and Jill A. Soltau</u>	8-K	001-15274	10.1	10/2/2018

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Exhibit No.	Exhibit Description	Incorporated by Reference		Filed Herewith (†) (as indicated)
		SEC Form File No.	Filing Exhibit Date	
10.74**	<u>Executive Termination Pay Agreement dated September 29, 2018 between J. C. Penney Company, Inc. and Jill A. Soltau</u>	8-K	001-15274 10.2	10/2/2018
10.75**	<u>Employment Agreement dated October 29, 2018 between J. C. Penney Corporation, Inc. and Michael Fung</u>	8-K	001-15274 10.1	10/29/2018
21	<u>Subsidiaries of the Registrant</u>			†
23	<u>Consent of Independent Registered Public Accounting Firm</u>			†
24	<u>Power of Attorney</u>			†
31.1	<u>Certification by CEO pursuant to 15 U.S.C. 78m(a) or 780(d), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>			†
31.2	<u>Certification by CFO pursuant to 15 U.S.C. 78m(a) or 780(d), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>			†
32.1	<u>Certification by CEO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>			†
32.2	<u>Certification by CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>			†
101.INS	XBRL Instance Document			†
101.SCH	XBRL Taxonomy Extension Schema Document			†
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document			†
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document			†
101.LAB	XBRL Taxonomy Extension Label Linkbase Document			†
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document			†

\*\* Indicates a management contract or compensatory plan or arrangement.

(b) See Exhibit Index above.

(c) Other Financial Statement Schedules. None.

Item 16. Form 10-K Summary

None.

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## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.  
(Registrant)

By /s/ Andrew S. Drexler  
Andrew S. Drexler  
Senior Vice President, Chief Accounting Officer and Controller  
(principal accounting officer)

Date: March 19, 2019

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signatures	Title	Date
Jill Soltau* Jill Soltau	Chief Executive Officer; Director (principal executive officer)	March 19, 2019
Michael Fung* Michael Fung	Interim Executive Vice President, Chief Financial Officer (principal financial officer)	March 19, 2019
/s/ Andrew S. Drexler Andrew S. Drexler	Senior Vice President, Chief Accounting Officer and Controller (principal accounting officer)	March 19, 2019
Ronald W. Tysoe* Ronald W. Tysoe	Chairman of the Board; Director	March 19, 2019
Paul J. Brown* Paul J. Brown	Director	March 19, 2019
Amanda Ginsberg* Amanda Ginsberg	Director	March 19, 2019
Wonya Y. Lucas* Wonya Y. Lucas	Director	March 19, 2019
B. Craig Owens* Craig Owens	Director	March 19, 2019
Lisa A. Payne* Lisa A. Payne	Director	March 19, 2019



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Signatures	Title	Date
Debora A. Plunkett* Debora A. Plunkett	Director	March 19, 2019
Leonard H. Roberts* Leonard H. Roberts	Director	March 19, 2019
Javier G. Teruel* Javier G. Teruel	Director	March 19, 2019
R. Gerald Turner* R. Gerald Turner	Director	March 19, 2019

\*By: /s/ Andrew S. Drexler  
Andrew S. Drexler  
Attorney-in-fact

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors

J. C. Penney Company, Inc.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of J. C. Penney Company, Inc. and subsidiaries (the Company) as of February 2, 2019 and February 3, 2018, the related consolidated statements of operations, comprehensive income/(loss), stockholders' equity, and cash flows for each of the years in the three-year period ended February 2, 2019, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of February 2, 2019 and February 3, 2018, and the results of its operations and its cash flows for each of the years in the three-year period ended February 2, 2019, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of February 2, 2019, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 19, 2019 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Change in Accounting Principle

As discussed in Note 3 to the consolidated financial statements, the Company changed its method of accounting for its revenue from contracts with customers effective February 4, 2018 due to the adoption of Accounting Standard Codification Topic 606, Revenue from Contracts with Customers.

As discussed in Note 2 to the consolidated financial statements, the Company elected to change its method of accounting for merchandise inventories for its Internet operations from the lower of standard cost (representing average vendor cost) or net realizable value to the lower of cost or market determined by the retail inventory method during the fiscal year-ended February 3, 2018.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

We have served as the Company's auditor since 1916.

Dallas, Texas

March 19, 2019



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## CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions, except per share data)

	2018	2017	2016
		As	As
		Adjusted	Adjusted
Total net sales	\$11,664	\$12,554	\$12,571
Credit income and other	355	319	347
Total revenues	12,019	12,873	12,918
Costs and expenses/(income):			
Cost of goods sold (exclusive of depreciation and amortization shown separately below)	7,870	8,208	8,097
Selling, general and administrative (SG&A)	3,596	3,845	3,973
Depreciation and amortization	556	570	609
Real estate and other, net	(19)	(146)	(111)
Restructuring and management transition	22	184	26
Total costs and expenses	12,025	12,661	12,594
Operating income/(loss)	(6)	212	324
Other components of net periodic pension and postretirement benefit cost/(income)	(71)	98	(53)
Loss on extinguishment of debt	23	33	30
Net interest expense	313	325	363
Income/(loss) before income taxes	(271)	(244)	(16)
Income tax expense/(benefit)	(16)	(126)	1
Net income/(loss)	\$(255)	\$(118)	\$(17)
Earnings/(loss) per share:			
Basic	\$(0.81)	\$(0.38)	\$(0.06)
Diluted	(0.81)	(0.38)	(0.06)
Weighted average shares – basic	315.7	311.1	308.1
Weighted average shares – diluted	315.7	311.1	308.1

See the accompanying notes to the Consolidated Financial Statements.

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## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)

(\$ in millions)	2018	2017	2016
		As	As
		Adjusted	Adjusted
Net income/(loss)	\$(255)	\$ (118 )	\$ (17 )
Other comprehensive income/(loss), net of tax:			
Retirement benefit plans			
Net actuarial gain/(loss) arising during the period <sup>(1)</sup>	38	67	1
Prior service credit/(cost) arising during the period <sup>(2)</sup>	—	—	5
Reclassification of net actuarial (gain)/loss from a settlement <sup>(3)</sup>	4	8	—
Reclassification for net actuarial (gain)/loss <sup>(4)</sup>	(2 )	16	1
Reclassification for amortization of prior service (credit)/cost <sup>(5)</sup>	4	4	—
Reclassification of prior service (credit)/cost from a curtailment <sup>(6)</sup>	—	3	—
Cash flow hedges			
Gain/(loss) on interest rate swaps <sup>(7)</sup>	(9 )	6	3
Reclassification for periodic settlements <sup>(8)</sup>	(2 )	7	8
Foreign currency translation			
Unrealized gain/(loss)	(1 )	2	—
Total other comprehensive income/(loss), net of tax	32	113	18
Total comprehensive income/(loss), net of tax	\$(223)	\$ (5 )	\$ 1

(1) Net of \$(10) million in tax in 2018, \$(36) million in tax in 2017 and \$(1) million in tax in 2016. For 2017, the amount includes a \$27 million pre-tax gain related to curtailment.

(2) Net of \$0 million in tax in 2018, \$0 million in tax in 2017 and \$(3) million in tax in 2016.

Net of \$(3) million and \$(5) million in tax in 2018 and 2017, respectively. Pre-tax amounts of \$7 million and \$13 million were recognized in Other components of net periodic pension and postretirement benefit cost/(income) in the Consolidated Statement of Operations in 2018 and 2017, respectively.

Net of \$1 million in tax in 2018, \$(9) million in tax in 2017 and \$(1) million in tax in 2016. Pre-tax amounts of \$(3) million in 2018, \$25 million in 2017 and \$2 million in 2016 were recognized in Other components of net periodic pension and postretirement benefit cost/(income) in the Consolidated Statement of Operations.

Net of \$(3) million of tax in 2018, \$(3) million of tax in 2017 and \$0 million of tax in 2016. Pre-tax amounts of \$7 million in 2018, \$7 million in 2017 and \$0 million in 2016 were recognized in Other components of net periodic pension and postretirement benefit cost/(income) in the Consolidated Statement of Operations.

Net of \$(1) million in tax in 2017. Pre-tax prior service cost of \$5 million related to the curtailment is included in Other components of net periodic pension and postretirement benefit cost/(income) in the Consolidated Statements of Operations in 2017.

(7) Net of \$4 million, \$(3) million and \$(2) million of tax in 2018, 2017 and 2016, respectively.

Net of \$0 million, \$(3) million and \$(5) million of tax in 2018, 2017 and 2016, respectively. Pre-tax amounts of \$(2) million in 2018, \$10 million in 2017 and \$13 million in 2016 were recognized in Net interest expense in the Consolidated Statement of Operations.

See the accompanying notes to the Consolidated Financial Statements.

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## CONSOLIDATED BALANCE SHEETS

(In millions, except per share data)

	2018	2017
		As Adjusted
Assets		
Current assets:		
Cash in banks and in transit	\$ 109	\$ 116
Cash short-term investments	224	342
Cash and cash equivalents	333	458
Merchandise inventory	2,437	2,803
Prepaid expenses and other	189	190
Total current assets	2,959	3,451
Property and equipment	3,938	4,281
Prepaid pension	147	61
Other assets	677	661
Total Assets	\$7,721	\$ 8,454
Liabilities and Stockholders' Equity		
Current liabilities:		
Merchandise accounts payable	\$847	\$ 973
Other accounts payable and accrued expenses	995	1,156
Current portion of capital leases, financing obligation and note payable	8	8
Current maturities of long-term debt	92	232
Total current liabilities	1,942	2,369
Long-term capital leases, financing obligation and note payable	204	212
Long-term debt	3,716	3,780
Deferred taxes	131	143
Other liabilities	558	567
Total Liabilities	6,551	7,071
Stockholders' Equity		
Common stock <sup>(1)</sup>	158	156
Additional paid-in capital	4,713	4,705
Reinvested earnings/(accumulated deficit)	(3,373 )	(3,118 )
Accumulated other comprehensive income/(loss)	(328 )	(360 )
Total Stockholders' Equity	1,170	1,383
Total Liabilities and Stockholders' Equity	\$7,721	\$ 8,454

(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 316.1 million and 312.0 million as of February 2, 2019 and February 3, 2018, respectively.

See the accompanying notes to the Consolidated Financial Statements.

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## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in millions)	Number of Common Shares	Common Stock	Additional Paid-in Capital	Reinvested Earnings/ (Accumulated Deficit)	Accumulated Other Comprehensive Income/(Loss)	Total Stockholders' Equity
January 30, 2016 - As Adjusted	306.1	\$ 153	\$ 4,654	\$ (2,983 )	\$ (491 )	\$ 1,333
Net income/(loss)	—	—	—	(17 )	—	(17 )
Other comprehensive income/(loss)	—	—	—	—	18	18
Stock-based compensation	2.2	1	25	—	—	26
January 28, 2017 - As Adjusted	308.3	\$ 154	\$ 4,679	\$ (3,000 )	\$ (473 )	\$ 1,360
Net income/(loss)	—	—	—	(118 )	—	(118 )
Other comprehensive income/(loss)	—	—	—	—	113	113
Stock-based compensation and other	3.7	2	26	—	—	28
February 3, 2018 - As Adjusted	312.0	\$ 156	\$ 4,705	\$ (3,118 )	\$ (360 )	\$ 1,383
Net income/(loss)	—	—	—	(255 )	—	(255 )
Other comprehensive income/(loss)	—	—	—	—	32	32
Stock-based compensation and other	4.1	2	8	—	—	10
February 2, 2019	316.1	\$ 158	\$ 4,713	\$ (3,373 )	\$ (328 )	\$ 1,170

See the accompanying notes to the Consolidated Financial Statements.

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## CONSOLIDATED STATEMENTS OF CASH FLOWS

(\$ in millions)

	2018	2017	2016
		As Adjusted	As Adjusted
Cash flows from operating activities			
Net income/(loss)	\$(255)	\$ (118 )	\$ (17 )
Adjustments to reconcile net income/(loss) to net cash provided by/(used in) operating activities:			
Restructuring and management transition	(3 )	74	(1 )
Asset impairments and other charges	56	6	3
Net gain on sale of non-operating assets	—	—	(5 )
Net gain on sale of operating assets	(67 )	(119 )	(73 )
Loss on extinguishment of debt	23	33	30
Depreciation and amortization	556	570	609
Benefit plans	(65 )	106	(39 )
Stock-based compensation	10	25	35
Other comprehensive income tax benefits	(11 )	(60 )	(12 )
Deferred taxes	(13 )	(63 )	9
Change in cash from:			
Inventory	366	93	(141 )
Prepaid expenses and other assets	1	(15 )	11
Merchandise accounts payable	(126 )	(4 )	52
Income taxes	—	(12 )	(6 )
Accrued expenses and other	(113 )	(62 )	(121 )
Net cash provided by/(used in) operating activities	359	454	334
Cash flows from investing activities			
Capital expenditures	(392 )	(395 )	(427 )
Proceeds from sale of non-operating assets	—	—	2
Proceeds from sale of operating assets	144	154	96
Joint venture return of investment	3	9	13
Insurance proceeds received for damage to property and equipment	1	3	—
Net cash provided by/(used in) investing activities	(244 )	(229 )	(316 )
Cash flows from financing activities			
Proceeds from issuance of long-term debt	400	—	2,188
Proceeds from borrowings under the credit facility	3,895	804	667
Payments of borrowings under the credit facility	(3,895)	(804 )	(667 )
Net proceeds from financing obligation	—	—	216
Premium on early retirement of debt	(20 )	(30 )	—
Payments of capital leases, financing obligation and note payable	(6 )	(16 )	(29 )
Payments of long-term debt	(607 )	(599 )	(2,349 )
Financing costs	(7 )	(9 )	(49 )
Proceeds from stock issued under stock plans	3	5	2
Tax withholding payments for vested restricted stock	(3 )	(5 )	(10 )
Net cash provided by/(used in) financing activities	(240 )	(654 )	(31 )
Net increase/(decrease) in cash and cash equivalents	(125 )	(429 )	(13 )
Cash and cash equivalents at beginning of period	458	887	900
Cash and cash equivalents at end of period	\$333	\$ 458	\$ 887

See the accompanying notes to the Consolidated Financial Statements.



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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation and Consolidation

Nature of Operations

Our Company was founded by James Cash Penney in 1902 and has grown to be a major national retailer, operating 864 department stores in 49 states and Puerto Rico, as well as through our Internet website at jcpenny.com. We sell family apparel and footwear, accessories, fine and fashion jewelry, beauty products through Sephora inside JCPenny, and home furnishings. In addition, our department stores provide services, such as styling salon, optical, portrait photography and custom decorating, to customers.

Basis of Presentation and Consolidation

The Consolidated Financial Statements present the results of J. C. Penney Company, Inc. and our subsidiaries (the Company or JCPenny). All significant inter-company transactions and balances have been eliminated in consolidation.

We are 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 direct subsidiaries other than JCP, and has no independent assets or operations.

The Company is a co-obligor (or guarantor, as appropriate) regarding the payment of principal and interest on JCP's outstanding debt securities. We guarantee certain of JCP's outstanding debt securities fully and unconditionally.

Fiscal Year

Our fiscal year ends on the Saturday closest to January 31. Unless otherwise stated, references to years in this report relate to fiscal years rather than to calendar years.

Fiscal Year Ended	Weeks
2018	February 2, 2019 52
2017	February 3, 2018 53
2016	January 28, 2017 52

Use of Estimates and Assumptions

The preparation of financial statements, in conformity with generally accepted accounting principles in the United States of America (GAAP), requires us to make assumptions and use estimates that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Such estimates and assumptions are subject to inherent uncertainties, which may result in actual amounts differing from reported amounts.

2. Significant Accounting Policies

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.





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The following table provides the components of Net sales for 2018, 2017 and 2016:

(\$ in millions)	2018		2017		2016	
Women's apparel	\$2,579	22 %	\$2,747	22 %	\$2,933	23 %
Men's apparel and accessories	2,431	21 %	2,596	21 %	2,700	21 %
Home	1,606	14 %	1,892	15 %	1,634	13 %
Women's accessories, including Sephora	1,506	13 %	1,637	13 %	1,634	13 %
Children's, including toys	1,070	9 %	1,145	9 %	1,222	10 %
Footwear and handbags	954	8 %	1,053	8 %	1,055	8 %
Jewelry	799	7 %	764			