J C PENNEY CO INC
Form 10-K
March 23, 2015
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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 January 31, 2015

or

o 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	Name of each exchange on which registered
Common Stock of 50 cents par value	New York Stock Exchange
Preferred Stock Purchase Rights	New York Stock Exchange

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 x No o

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

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 x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of

this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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. o

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

Large accelerated filer x	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o
		(Do not check if a smaller reporting company)	

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

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 equity, as of the last business day of the registrant's most recently completed second fiscal quarter (August 2, 2014). $2,930,303,291

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

305,120,922 shares of Common Stock of 50 cents par value, as of March 16, 2015.

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. 2015 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 1,062 department stores in 49 states and Puerto Rico as of January 31, 2015. 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 2014 ended on January 31, 2015; fiscal year 2013 ended on February 1, 2014; and fiscal year 2012 ended on February 2, 2013. Fiscal years 2014 and 2013 consisted of 52 weeks and fiscal year 2012 consisted of 53 weeks.

Our business consists of selling merchandise and services to consumers through our department stores and our website at jcpenney.com, which utilizes fully optimized applications for desktop, mobile and tablet devices. Our department stores and website generally serve the same type of customers and provide virtually the same mix of merchandise, and our department stores 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 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 2014, our merchandise mix of total net sales over the last three years was as follows:

	2014		2013		2012	
Women’s apparel	24	%	24	%	24	%
Men’s apparel and accessories	22	%	22	%	21	%
Home	12	%	11	%	12	%
Women’s accessories, including Sephora	12	%	11	%	10	%
Children’s apparel	10	%	11	%	12	%
Family footwear	8	%	9	%	9	%
Fine jewelry	7	%	7	%	7	%
Services and other	5	%	5	%	5	%
	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 price, quality, style, service, product mix, convenience, loyalty programs and credit availability. 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™, Total Girl™, monet®, JCPenney Home™, Studio JCP Home™, Home Collection by JCPenney™, Made for Life™, Stylus™, Sleep Chic™, Home Expressions 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.jcpenney.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 2,400 domestic and foreign suppliers, many of which 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 11 foreign countries as of January 31, 2015.

Employment

The Company and its consolidated subsidiaries employed approximately 114,000 full-time and part-time employees as of January 31, 2015.

Environmental Matters

Environmental protection requirements did not have a material effect upon our operations during 2014. 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 January 31, 2015, we estimated our total potential environmental liabilities to range from $20 million to $25 million and recorded our best estimate of $22 million in Other accounts payable and accrued expenses and Other liabilities in the Consolidated Balance Sheet as of that date. This estimate covered potential liabilities primarily related to underground storage tanks, remediation of environmental conditions involving our former drugstore locations and asbestos removal in connection with approved plans to renovate or dispose of our facilities. We continue to assess required remediation and the adequacy of environmental reserves as new information becomes available and known conditions are further delineated. If we were to incur losses at the upper end of the estimated range, we do not believe that such losses would have a material effect on our financial condition, results of operations or liquidity.

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Executive Officers of the Registrant

The following is a list, as of March 16, 2015, 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.

Name	Offices and Other Positions Held With the Company	Age
Myron E. Ullman, III	Chief Executive Officer	68
Marvin R. Ellison	President and CEO-Designee	50
Edward J. Record	Executive Vice President and Chief Financial Officer	46
Janet Dhillon*	Executive Vice President, General Counsel and Secretary	52
Brynn L. Evanson	Executive Vice President, Human Resources	45
D. Scott Laverty	Executive Vice President, Chief Information Officer	55
Dennis P. Miller	Senior Vice President and Controller	62

* Ms. Dhillon left the Company effective March 20, 2015.

Mr. Ullman has served as Chief Executive Officer of the Company since April 2013. He previously served as Chairman of the Board of Directors from 2004 to January 2012 and Chief Executive Officer of the Company from 2004 to November 2011. He was Directeur General, Group Managing Director, LVMH Moët Hennessy Louis Vuitton (luxury goods manufacturer/retailer) from 1999 to 2002. He was President of LVMH Selective Retail Group from 1998 to 1999. From 1995 to 1998, he was Chairman of the Board and Chief Executive Officer of DFS Group Ltd. From 1992 to 1995, he was Chairman of the Board and Chief Executive Officer of R. H. Macy & Company, Inc. He has served as a director of the Company and as a director of JCP since 2013.

Mr. Ellison has served as President and CEO-Designee of the Company since November 2014. Prior to joining the Company, he served as Executive Vice President - U.S. Stores of The Home Depot, Inc. from 2008 to 2014. His prior roles with The Home Depot, Inc. included President - Northern Division from 2006 to 2008, Senior Vice President - Logistics from 2005 to 2006, Vice President - Logistics from 2004 to 2005, and Vice President - Loss Prevention from 2002 to 2004. Mr. Ellison began his career with Target Corporation where he served in a variety of operational roles. He has served as a director of the Company and as a director of JCP since 2014.

Mr. Record has served as Executive Vice President and Chief Financial Officer since 2014. Prior to joining the Company, he served as Executive Vice President and Chief Operating Officer of Stage Stores, Inc. (apparel retailer) from 2010 to 2014. His prior roles with Stage Stores, Inc. included Chief Financial Officer from September 2007 to 2010 and Executive Vice President and Chief Administrative Officer from May 2007 to September 2007. Mr. Record was Senior Vice President of Finance of Kohl’s Corporation from 2005 to 2007. Prior to that, he served as Senior Vice President of Finance and Controller of Belk, Inc. from April 2005 to October 2005 and Senior Vice President and Controller of Belk from 2002 to April 2005. He has served as a director of JCP since 2014.

Ms. Dhillon has served as Executive Vice President, General Counsel and Secretary of the Company since 2009. Prior to joining the Company, she served as Senior Vice President and General Counsel and Chief Compliance Officer of US Airways Group, Inc. and US Airways, Inc. from 2006 to 2009. Ms. Dhillon joined US Airways, Inc. in 2004 as Managing Director and Associate General Counsel and served as Vice President and Deputy General Counsel of US Airways Group, Inc. and US Airways, Inc. from 2005 to 2006. Ms. Dhillon was with the law firm of Skadden, Arps, Slate, Meagher & Flom LLP from 1991 to 2004.

Ms. Evanson has served as Executive Vice President, Human Resources since 2013. She joined the Company in 2009 as Director of Compensation and became Vice President, Compensation, Benefits and Talent Operations in 2010. Prior to joining the Company, she worked at the Dayton Hudson Corporation from 1991 to 2009 (renamed Target

Corporation in 2000). Ms. Evanson began her career with Marshall Field's where she advanced through positions in stores, finance, human resources and merchandising. She moved to the Target stores division in 2000, ultimately serving as Director of Executive Compensation and Retirement Plans.

Mr. Laverty has served as Executive Vice President, Chief Information Officer since September 2013 after serving as interim Chief Information Officer from June 2013 to September 2013. He joined the Company as Senior Vice President, Business Solutions in 2012. Prior to joining the Company, Mr. Laverty served as the Americas retail practice leader for HCL Axon

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(technology consultancy) from 2011 to 2012. He served as Senior Vice President, Chief Information Officer of Borders Group from May 2009 to January 2011. In February 2011, Borders Group and its subsidiaries filed voluntary petitions for relief under Chapter 11 of the U.S. Bankruptcy Code in the U.S. Bankruptcy Court for the Southern District of New York. Previously, Mr. Laverty held senior consulting roles with IBM, Deloitte, PricewaterhouseCoopers and Ernst & Young. Early in his career he led inventory management and planning at several retail companies, including Michael's Stores and Payless Shoesource.
Mr. Miller has served as Senior Vice President and Controller of the Company since September 2013. He previously served as Senior Vice President and Controller from 2008 to September 2012 and was Senior Vice President, Finance with responsibility for the Company's shared services center in Salt Lake City from September 2012 to September 2013. Mr. Miller served as Vice President, Director of Procurement and Strategic Sourcing of JCP from 2004 to 2008. From 2001 to 2004, he served as Senior Vice President and Chief Financial Officer of Eckerd Corporation, a former subsidiary of the Company.

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

During fiscal 2014, we entered the "go-forward" phase of our turnaround as we position the Company for long-term growth. However, 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 benefit from capital improvements made to our store environment;
- 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 adequate and uninterrupted supply of merchandise from suppliers at expected levels and on acceptable terms; and
- general economic conditions.

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

We operate in a highly competitive industry, 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, credit availability and customer loyalty. 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 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 gross margin and/or higher operating expenses such as marketing costs and other selling, general and administrative expenses, which in turn could have an adverse impact on our profitability.

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

Our sales and operating results depend in part on our ability to predict and respond to changes in fashion trends and customer preferences in a timely manner by consistently offering stylish, quality merchandise assortments at competitive prices. We continuously assess emerging styles and trends and focus on developing a merchandise assortment to meet customer preferences. 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.

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, or the failure of our private brand merchandise to deliver consistently good value to the customer. 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, 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 as well as present an appealing shopping environment and experience to customers. 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. In addition, external events outside of our control, including 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 gross margins, operating results and cash flows from operating activities.

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

Our profitability depends upon our ability to manage appropriate inventory levels and respond quickly to shifts in consumer demand patterns. We must properly execute our inventory management strategies by appropriately allocating merchandise among our stores 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

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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 gross margins and operating results. If we underestimate customer demand for our merchandise, we may experience inventory shortages which may result in missed sales opportunities and have a negative impact on customer loyalty.

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 and integrity 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 or inadvertent data disclosure or acquisition by third parties or us. Further, because the methods used to obtain unauthorized access change frequently and may not be immediately detected, we may be unable to anticipate these methods or promptly implement safeguards. Any failure to protect confidential data about our business or our customers, employees or other third parties could materially damage our brand and reputation as well as result in significant expenses and disruptions to our operations, and loss of customer confidence, any of which could have a material adverse impact on our business and results of operations. We could also be subject to government enforcement actions and private litigation as a result of any such failure.

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

Our results depend on the contributions of our employees, including our senior management team and other key employees. This depends to a great extent on our ability to retain, attract and motivate talented employees throughout the organization, many of whom, particularly in the stores, are in entry level or part-time positions, which have historically had high rates of turnover. We currently operate with significantly fewer individuals than we have in the past who have assumed additional duties and responsibilities, which could have an adverse impact on our operating performance and efficiency. Because of our lower than expected operating results in prior years, salary increases, bonuses and incentive compensation opportunities have been limited. Any prolonged inability to provide meaningful salary increases or incentive compensation opportunities, or media reports regarding our financial condition, could have an adverse impact on our ability to attract, retain and motivate our employees. If we are unable to retain, attract and motivate talented employees with the appropriate skill sets, we may not achieve our objectives and our results of operations could be adversely impacted. Our ability to meet our changing labor needs while controlling our costs is also subject to external factors such as unemployment levels, competing wages and potential union organizing efforts. 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.

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

We sell merchandise over the Internet through our website, www.jcpenney.com, and through a mobile application for 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 and security of our website and related support systems; computer viruses; telecommunications failures; electronic break-ins and similar disruptions; and the allocation of inventory between our website and department stores. The failure of our website or mobile application to perform as expected could result in disruptions and costs to our operations and make it more difficult for customers to purchase merchandise online. In addition, our inability to successfully develop and maintain the necessary technological interfaces for our customers to purchase merchandise through our website, including user friendly software applications for smart phones and tablets, could result in the loss of Internet sales and have an adverse impact on our results of operations.

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

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

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

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

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.

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

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

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

Our merchandise is sourced from a wide variety of suppliers, and our business depends on being able to find qualified suppliers and access products in a timely and efficient manner. Inflationary pressures on commodity prices and other input costs could increase our cost of goods, and an inability to pass such cost increases on to our customers or a change in our merchandise mix as a result of such cost increases could have an adverse impact on our profitability.

Additionally, the impact of economic conditions on our suppliers cannot be predicted and our suppliers may be unable to access financing or become insolvent and thus become unable to supply us with products.

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

We are party to a $2.25 billion senior secured term loan credit facility that is secured by mortgages on certain real property of the Company, in addition to liens on substantially all personal property of the Company, subject to certain exclusions set forth in the credit and security agreement governing the term loan credit facility and related security documents.

The real property subject to mortgages under the term loan credit facility includes our headquarters, distribution centers and certain of our stores.

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

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

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

In June 2014, we entered into a new $2.35 billion senior secured asset-based revolving credit and term loan 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

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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 January 31, 2015, we have $5.416 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.

We are required to make quarterly repayments in a principal amount equal to $5.625 million during the five-year term of the real estate term loan credit facility, subject to certain reductions for mandatory and optional prepayments, and quarterly repayments in a principal amount equal to $1.25 million during the five-year term of the senior secured asset-based revolving credit and term loan facility.

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, and prepayments of the asset-based revolving credit and term loan facility with excess cash flow, which will reduce the cash available for other purposes, including capital expenditures for store improvements, and could impact our ability to reinvest in other areas of our business.

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

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

Our ability to obtain any additional financing or any refinancing of our debt, if needed at any time, depends upon many factors, including our existing level of indebtedness and restrictions in our debt facilities, historical business performance, financial projections, prospects and creditworthiness and external economic conditions and general liquidity in the credit and capital markets. Any additional debt, equity or equity-linked financing may require modification of our existing debt agreements, which there is no assurance would be obtainable. Any additional

financing or refinancing could also be extended only at higher costs and require us to satisfy more restrictive covenants, which could further limit or restrict our business and results of operations, or be dilutive to our stockholders.

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

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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.

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

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

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

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

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

Political or financial instability, trade restrictions, tariffs, currency exchange rates, labor conditions, 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.

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

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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. In particular, the moderate income consumer, which is our core customer, has been under economic pressure for the past several years, and may have less disposable income for items such as apparel and home goods. 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, gross margins and results of operations.

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

Our business is subject to a wide array of laws and regulations. The current political environment, financial reform legislation, the current high level of government intervention and activism, regulatory reform and stockholder activism may result in substantial new regulations and disclosure obligations 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, product safety or 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, could also cause our compliance costs to increase and adversely affect our business and results of operations.

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

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

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whether the claims are meritorious, legal and regulatory proceedings may require that we devote substantial time and expense to defend our Company. Unfavorable rulings could result in a material adverse impact on our business, financial condition or results of operations.

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

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

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. The Company and certain of our current and former members of the Board of Directors and executives are defendants in a consolidated class action lawsuit and two related shareholder derivative actions that were filed following our announcement of an issuance of common stock on September 26, 2013. An additional class action complaint regarding the same announcement was also recently filed. 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 $2.6 billion as of January 31, 2015. These NOL carryforwards (expiring in 2032 through 2034) are available to offset future taxable income. The Company may recognize additional NOLs in the future.

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 2.8% at January 31, 2015. To the extent that a company has a net unrealized built-in gain at the time of an ownership change, which is realized or deemed recognized during the five-year period following the ownership change, there is an increase in the annual limitation for each of the first five-years that is cumulative to the extent it is not all utilized in a year.

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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 March 9, 2015, the Company has not had a Section 382 ownership change through March 9, 2015.

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 January 31, 2015, we operated 1,062 department stores throughout the continental United States, Alaska and Puerto Rico, of which 425 were owned, including 122 stores located on ground leases. The following table lists the number of stores operating by state as of January 31, 2015:

Alabama	21	Maine	6	Oklahoma	19
Alaska	1	Maryland	18	Oregon	14
Arizona	22	Massachusetts	13	Pennsylvania	40
Arkansas	16	Michigan	42	Rhode Island	3
California	80	Minnesota	25	South Carolina	18
Colorado	21	Mississippi	15	South Dakota	8
Connecticut	8	Missouri	26	Tennessee	25
Delaware	3	Montana	7	Texas	92
Florida	55	Nebraska	11	Utah	9
Georgia	30	Nevada	7	Vermont	6
Idaho	9	New Hampshire	9	Virginia	26
Illinois	39	New Jersey	15	Washington	22
Indiana	28	New Mexico	10	West Virginia	9
Iowa	18	New York	43	Wisconsin	17
Kansas	19	North Carolina	33	Wyoming	5
Kentucky	22	North Dakota	8	Puerto Rico	7
Louisiana	16	Ohio	46		
Total square feet	107.9 million				

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

In January 2015, we announced the closing of 40 underperforming department stores in fiscal 2015. All store closures are expected to be completed throughout 2015 and are included in the list above.

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At January 31, 2015, our supply chain network operated 14 facilities with multiple types of distribution activities, including store merchandise distribution centers (stores), regional warehouses (regional), jcpenney.com fulfillment centers (direct to customers) and furniture distribution centers (furniture) as indicated in the following table:

Location	Leased/Owned	Primary Function(s)	Square Footage (in thousands)
Manchester, Connecticut	Owned	stores, furniture	2,120
Lenexa, Kansas	Owned	stores, direct to customers	1,944
Columbus, Ohio	Owned	stores, direct to customers	1,902
Milwaukee, Wisconsin	Owned	stores, furniture	1,869
Atlanta, Georgia	Owned	stores, regional, furniture	1,764
Reno, Nevada	Owned	stores, regional, direct to customers	1,660
Buena Park, California	Owned	stores, regional, furniture	1,082
Alliance, Texas	Owned	regional	1,071
Statesville, North Carolina	Owned	stores, regional	595
Lathrop, California	Leased	regional	436
Cedar Hill, Texas	Leased	stores	420
Spanish Fork, Utah	Leased	stores	400
Lakeland, Florida	Leased	stores	360
Sumner, Washington[1]	Leased	stores	350
Total supply chain network			15,973

(1) Store merchandise distribution center discontinued shipping to stores in January 2015 and will be vacated by the Company in April 2015.

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Item 3. Legal Proceedings

Macy’s Litigation

On August 16, 2012, Macy’s, Inc. and Macy’s Merchandising Group, Inc. (together the Plaintiffs) filed suit against J. C. Penney Corporation, Inc. in the Supreme Court of the State of New York, County of New York, alleging that the Company tortiously interfered with, and engaged in unfair competition relating to a 2006 agreement between Macy’s and Martha Stewart Living Omnimedia, Inc. (MSLO) by entering into a partnership agreement with MSLO in December 2011. The Plaintiffs sought primarily to prevent the Company from implementing our partnership agreement with MSLO as it related to products in the bedding, bath, kitchen and cookware categories. The suit was consolidated with an already-existing breach of contract lawsuit by the Plaintiffs against MSLO, and a bench trial commenced on February 20, 2013. On October 21, 2013, the Company and MSLO entered into an amendment of the partnership agreement, providing in part that the Company will not sell MSLO-designed merchandise in the bedding, bath, kitchen and cookware categories. On January 2, 2014, MSLO and Macy's announced that they had settled the case as to each other, and MSLO was subsequently dismissed as a defendant. On June 16, 2014, the Court issued a ruling against JCPenney on the remaining claim of intentional interference, and held that Macy’s is not entitled to punitive damages. The Court referred other issues related to damages to a Judicial Hearing Officer. On June 30, 2014, JCPenney appealed the Court’s decision, and Macy’s cross-appealed a portion of the decision. On February 26, 2015, the appellate court affirmed the trial court's rulings concerning the claim of intentional interference and lack of punitive damages, and reinstated Macy's claims for intentional interference and unfair competition that had been dismissed during trial. While no assurance can be given as to the ultimate outcome of this matter, we believe that the final resolution of this action will not have a material adverse effect on our results of operations, financial position, liquidity or capital resources.

Ozenne Derivative Lawsuit

On January 19, 2012, a purported shareholder of the Company, Everett Ozenne, filed a shareholder derivative lawsuit in the 193rd District Court of Dallas County, Texas, against certain of the Company’s Board of Directors and executives. The Company is a nominal defendant in the suit. The lawsuit alleged breaches of fiduciary duties, corporate waste and unjust enrichment involving decisions regarding executive compensation, specifically that compensation paid to certain executive officers from 2008 to 2011 was too high in light of the Company’s financial performance. The suit sought damages including unspecified compensatory damages, disgorgement by the former officers of allegedly excessive compensation, and equitable relief to reform the Company’s compensation practices. The Company and the named individuals filed an Answer and Special Exceptions to the lawsuit, arguing primarily that the plaintiff could not proceed with his suit because he failed to make demand on the Company’s Board of Directors, and that because demand on the Board would not be futile, demand was not excused. The trial court heard arguments on the Special Exceptions on June 25, 2012 and denied them. The Company and named individuals filed a mandamus proceeding in the Fifth District Court of Appeals challenging the trial court’s decision. The parties then settled the litigation and the appellate court stayed the appeal so that the trial court could review the proposed settlement. The trial court approved the settlement at a hearing on October 28, 2013 and, despite objection, awarded the plaintiff $3.1 million in attorneys’ fees and costs. Following the Company's appeal of the award of attorneys' fees and costs, the Fifth District Court of Appeals affirmed the award on December 19, 2014. We believe that the final resolution of this action will not have a material adverse effect on our results of operations, financial position, liquidity or capital resources.

Class Action Securities Litigation

The Company, Myron E. Ullman, III and Kenneth H. Hannah are parties to the Marcus consolidated purported class action lawsuit in the U.S. District Court, Eastern District of Texas, Tyler Division. The Marcus consolidated complaint is purportedly brought on behalf of persons who acquired our common stock during the period from August 20, 2013 through September 26, 2013, and alleges claims for violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder. Plaintiff claims that the defendants made false and misleading statements and/or omissions regarding the Company’s financial condition and business prospects that

caused our common stock to trade at artificially inflated prices. The consolidated complaint seeks class certification, unspecified compensatory damages, including interest, reasonable costs and expenses, and other relief as the court may deem just and proper. Defendants have filed a motion to dismiss the consolidated complaint. Briefing on the motion to dismiss was completed in November, 2014.

Also, on August 26, 2014, plaintiff Nathan Johnson filed a purported class action lawsuit against the Company, Myron E. Ullman, III and Kenneth H. Hannah in the U.S. District Court, Eastern District of Texas, Tyler Division. The suit is purportedly brought on behalf of persons who acquired our securities other than common stock during the period from August 20, 2013 through September 26, 2013, and alleges claims for violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder. Plaintiff's lawsuit generally mirrors the allegations contained in the Marcus lawsuit discussed above, and seeks similar relief. On November 11, 2014, defendants filed an unopposed motion to consolidate this lawsuit with the Marcus lawsuit. On November 18, 2014, plaintiff filed a motion for appointment of lead plaintiff. On

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December 5, 2014, the lead plaintiff in the Marcus lawsuit filed an opposition to the plaintiff's motion for appointment of lead plaintiff.

We believe these lawsuits are without merit and we intend to vigorously defend them. While no assurance can be given as to the ultimate outcome of these matters, we believe that the final resolution of these actions will not have a material adverse effect on our results of operations, financial position, liquidity or capital resources.

Shareholder Derivative Litigation
In October, 2013, two purported shareholder derivative actions were filed against certain present and former members of the Company’s Board of Directors and executives by the following parties in the U.S. District Court, Eastern District of Texas, Sherman Division: Weitzman (filed October 2, 2013) and Zauderer (filed October 3, 2013). The Company is named as a nominal defendant in both suits. The lawsuits assert claims for breaches of fiduciary duties and unjust enrichment based upon alleged false and misleading statements and/or omissions regarding the Company’s financial condition. The lawsuits seek unspecified compensatory damages, restitution, disgorgement by the defendants of all profits, benefits and other compensation, equitable relief to reform the Company’s corporate governance and internal procedures, reasonable costs and expenses, and other relief as the court may deem just and proper. On October 28, 2013, the Court consolidated the two cases into the Weitzman lawsuit. On January 15, 2014, the Court entered an order staying the derivative suits pending certain events in the class action securities litigation described above. While no assurance can be given as to the ultimate outcome of this matter, we believe that the final resolution of this action will not have a material adverse effect on our results of operations, financial position, liquidity or capital resources.

ERISA Class Action Litigation
The Company’s wholly owned subsidiary, J. C. Penney Corporation, Inc., and certain present and former members of Corporation’s Board of Directors have been sued in a purported class action complaint by plaintiffs Roberto Ramirez and Thomas Ihle, individually and on behalf of all others similarly situated, which was filed on July 8, 2014 in the U.S. District Court, Eastern District of Texas, Tyler Division. The suit alleges that the defendants violated Section 502 of the Employee Retirement Income Security Act (ERISA) by breaching fiduciary duties relating to the J. C. Penney Corporation, Inc. Savings, Profit-Sharing and Stock Ownership Plan (the “Plan”). The class period is alleged to be between November 1, 2011 and September 27, 2013. Plaintiffs allege that they and others who invested in or held Company stock in the Plan during this period were injured because defendants allegedly made false and misleading statements and/or omissions regarding the Company’s financial condition and business prospects that caused the Company’s common stock to trade at artificially inflated prices. The complaint seeks class certification, declaratory relief, a constructive trust, reimbursement of alleged losses to the Plan, actual damages, attorneys’ fees and costs, and other relief. Defendants filed a motion to dismiss the complaint on November 7, 2014. We believe the lawsuit is without merit and we intend to vigorously defend it. While no assurance can be given as to the ultimate outcome of this matter, we believe that the final resolution of this action will not have a material adverse effect on our results of operations, financial position, liquidity or capital resources.

Employment Class Action Litigation
The Company’s wholly owned subsidiary, J. C. Penney Corporation, Inc., is a defendant in a class action proceeding entitled Tschudy v. JCPenney Corporation filed on April 15, 2011 in the U.S. District Court, Southern District of California. The lawsuit alleges that JCP violated the California Labor Code in connection with the alleged forfeiture of accrued and vested vacation time under its “My Time Off” policy. The class consists of all JCP employees who worked in California from April 5, 2007 to the present. Plaintiffs amended the complaint to assert additional claims under the Illinois Wage Payment and Collection Act on behalf of all JCP employees who worked in Illinois from January 1, 2004 to the present. After the court granted JCP’s motion to transfer the Illinois claims, those claims are now pending in a separate action in the U.S. District Court, Northern District of Illinois, entitled Garcia v. JCPenney Corporation. Plaintiffs in both lawsuits filed motions, which the Company opposed, to certify these actions on behalf

of all employees in California and Illinois based on the specific claims at issue. On December 17, 2014, the California court granted plaintiffs' request for class certification. The Illinois court has not yet ruled on plaintiffs' motion for class certification. We believe these lawsuits are without merit and we intend to continue to vigorously defend these lawsuits. While no assurance can be given as to the ultimate outcome of these matters, we believe that the final resolution of these actions will not have a material adverse effect on our results of operations, financial position, liquidity or capital resources.

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Other Legal Proceedings

On January 3, 2014, the Company received a demand for production of the Company's books and records pursuant to Section 220 of the Delaware General Corporation Law from the law firm Wolf Haldenstein Adler Freeman & Herz LLP on behalf of Bruce Murphy as Trustee of the Bruce G. Murphy Trust. The alleged purpose of the demand is to investigate potential mismanagement and breaches of fiduciary duties by the Company's senior officers and directors in connection with their oversight of the Company's operations and business prospects, including the Company's liquidity profile and capital requirements. The Company has exchanged correspondence with the law firm concerning the demand.

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 16, 2015, was 26,540. In addition to common stock, we have authorized 25 million shares of preferred stock, of which no shares were issued and outstanding at January 31, 2015.

The table below sets forth the quoted high and low intraday sale prices of our common stock on the NYSE for each quarterly period indicated and the quarter-end closing market price of our common stock:

Fiscal Year 2014	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Market price:				
High	$9.28	$9.93	$11.30	$8.30
Low	$4.90	$8.03	$6.73	$5.90
Close	$8.58	$9.63	$7.61	$7.27
Fiscal Year 2013	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Market price:				
High	$23.10	$19.63	$14.65	$10.30
Low	$13.55	$13.97	$6.24	$5.68
Close	$17.26	$14.28	$8.14	$5.92

Since May 2012, the Company has not paid a dividend. Under our 2013 senior secured term loan and 2014 senior 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 12 to the Consolidated Financial Statements.

Issuer Purchases of Securities

No repurchases of common stock were made during the fourth quarter of 2014 and no amounts remained authorized for share repurchases as of January 31, 2015.

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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 2009 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:
JCPenney, Dillard’s, Macy’s, Kohl’s, Nordstrom, Sears

	2009	2010	2011	2012	2013	2014
JCPenney	$100	$134	$176	$85	$25	$31
S&P 500	100	121	128	150	181	206
S&P Department Stores	100	115	130	134	155	194

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

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Item 6. Selected Financial Data

Five-Year Financial Summary ($ in millions, except per share data)	2014	2013	2012	2011	2010
Results for the year					
Total net sales	$12,257	$11,859	$12,985	$17,260	$17,759
Sales percent increase/(decrease):					
Total net sales	3.4 %	(8.7)%[1]	(24.8)%[1]	(2.8)%	1.2 %
Comparable store sales[2]	4.4 %	(7.4)%	(25.1)%	0.3 %	2.6 %
Operating income/(loss)	(308)	(1,420)	(1,310)	(2)	832
As a percent of sales	(2.5)%	(12.0)%	(10.1)%	0.0 %	4.7 %
Net income/(loss) from continuing operations	(771)	(1,388)	(985)	(152)	378
Net income/(loss) from continuing operations before net interest expense, income tax (benefit)/expense and depreciation and amortization (EBITDA) (non-GAAP)[3]	323	(819)	(767)	516	1,343
Adjusted EBITDA (non-GAAP)[3]	242	(636)	(396)	1,054	1,596
Adjusted net income/(loss) (non-GAAP) from continuing operations[3]	(816)	(1,431)	(766)	207	533
Per common share					
Earnings/(loss) per share from continuing operations, diluted	$(2.53)	$(5.57)	$(4.49)	$(0.70)	$1.59
Adjusted earnings/(loss) per share from continuing operations, diluted (non-GAAP)[3]	$(2.67)	$(5.74)	$(3.49)	$0.94 [4]	$2.24
Dividends declared[5]	—	—	0.20	0.80	0.80
Financial position and cash flow					
Total assets	$10,404	$11,801	$9,781	$11,424	$13,068
Cash and cash equivalents	1,318	1,515	930	1,507	2,622
Total debt, including capital leases and note payable	5,416	5,601	2,982	3,102	3,099
Free cash flow (non-GAAP)[3]	57	(2,746)	(906)	23	158

(1) Includes the effect of the 53rd week in 2012. Excluding sales of $163 million for the 53rd week in 2012, total net sales decreased 7.5% and 25.7% in 2013 and 2012, respectively.

(2) Comparable store sales are presented on a 52-week basis and include sales from new and relocated stores that have been opened 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 closures remain in the calculations. Beginning in 2014, the Company simplified its comparable store sales calculation to better reflect year-over-year comparability. Certain items, such as sales return estimates and store liquidation sales, are now excluded from the Company's calculation. Prior periods have been adjusted to reflect this new methodology. Our definition and calculation of comparable store sales may differ from other companies in the retail industry.

(3) See Non-GAAP Financial Measures beginning on the following page for additional information and reconciliation to the most directly comparable GAAP financial measure.

(4) Weighted average shares–diluted of 220.7 million was used for this calculation as adjusted income/(loss) from continuing operations was positive. 3.3 million shares were added to weighted average shares–basic of 217.4 million

for assumed dilution for stock options, restricted stock awards and stock warrant.

(5) On May 15, 2012, we announced that we had discontinued the quarterly $0.20 per share dividend.

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Five-Year Operations Summary

	2014	2013	2012	2011	2010
Number of department stores:					
Beginning of year	1,094	1,104	1,102	1,106	1,108
Openings	1	—	9 [1]	3	2
Closings	(33)	(10)	(7) [1]	(7)	(4)
End of year	1,062	1,094	1,104	1,102	1,106
Gross selling space (square feet in millions)	107.9	110.6	111.6	111.2	111.6
Sales per gross square foot[2]	$113	$107	$116	$154	$153
Sales per net selling square foot[2]	$155	$147	$161	$212	$210
Number of the Foundry Big and Tall Supply Co. stores[3]	—	10	10	10	—

(1) Includes 3 relocations.

(2) Calculation includes the sales and square footage of JCPenney department stores that were open for the full fiscal year and sales for jcpenney.com.

(3) All stores opened during 2011 and closed during 2014. Gross selling space was 51 thousand square feet as of the end of 2013, 2012 and 2011.

Non-GAAP Financial Measures

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

The following non-GAAP financial measures are adjusted to exclude the impact of markdowns related to the alignment of inventory with our prior strategy, restructuring and management transition charges, the impact of our qualified defined benefit pension plan (Primary Pension Plan), 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) and the tax impact related to the allocation of tax expense to other comprehensive income items. Unlike other operating expenses, the impact of markdowns related to the alignment of inventory with our prior strategy, 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 and the tax impact related to the allocation of tax expense to other comprehensive income items are not directly related to our ongoing core business operations. Primary Pension Plan expense/(income) is determined using numerous complex assumptions about changes in pension assets and liabilities that are subject to factors beyond our control, such as market volatility. Accordingly, we eliminate our Primary Pension Plan expense/(income) in its entirety as we view all components of net periodic benefit expense/(income) as a single, net amount, consistent with its presentation in our Consolidated Financial Statements. We believe it is useful for investors to understand the impact of markdowns related to the alignment of inventory with our prior strategy, restructuring and management transition charges, Primary Pension Plan expense/(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 and the tax impact related to the allocation of tax expense to other comprehensive income items 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.

In addition, we believe that EBITDA is a useful measure in assessing our operating performance and are therefore presenting this non-GAAP financial measure in addition to the non-GAAP financial measures listed above.

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

($ in millions)	2014	2013	2012	2011	2010
Net income/(loss) from continuing operations	$(771)	$(1,388)	$(985)	$(152)	$378
Add: Net interest expense	406	352	226	227	231
Add: Loss on extinguishment of debt	34	114	—	—	20
Total interest expense	440	466	226	227	251
Add: Income tax expense/(benefit)	23	(498)	(551)	(77)	203
Add: Depreciation and amortization	631	601	543	518	511
EBITDA (non-GAAP)	323	(819)	(767)	516	1,343
Add: Markdowns - inventory strategy alignment	—	—	155	—	—
Add: Restructuring and management transition charges	87	215	298	451	32
Add: Primary pension plan expense/(income)	(2)	100	315	87	221
Less: Net gain on the sale of non-operating assets	(25)	(132)	(397)	—	—
Less: Proportional share of net income from home office land joint venture	(53)	—	—	—	—
Less: Certain net gains	(88) [1]	—	—	—	—
Adjusted EBITDA (non-GAAP)	$242	$(636)	$(396)	$1,054	$1,596

(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)	2014	2013	2012	2011	2010
Net income/(loss) (GAAP) from continuing operations	$(771)	$(1,388)	$(985)	$(152)	$378
Diluted EPS (GAAP) from continuing operations	$(2.53)	$(5.57)	$(4.49)	$(0.70)	$1.59
Add: markdowns - inventory strategy alignment, net of tax of $-, $-, $60, $- and $-	—	—	95 [1]	—	—
Add: restructuring and management transition charges, net of tax of $-, $28, $116, $145 and $12	87 [2]	187 [3]	182 [1]	306 [4]	20 [1]
Add/(deduct): primary pension plan expense/(income), net of tax of $-, $10, $122, $34, and $86	(2) [2]	90 [5][6]	193 [1]	53 [1]	135 [1]
Add: Loss on extinguishment of debt, net of tax of $-, $-, $-, $- and $-	34 [2]	114 [2]	—	—	—
Less: Net gain on sale or redemption of non-operating assets, net of tax of $-, $1, $146, $- and $-	(25) [2]	(131) [7]	(251) [4]	—	—
Less: Proportional share of net income from home office land joint venture, net of tax of $-, $-, $-, $- and $-	(53) [2]	—	—	—	—
Less: Certain net gains, net of tax of $2, $-, $-, $- and $-	(86) [7]	—	—	—	—
	—	(303) [8]	—	—	—

Less: Tax benefit resulting from other comprehensive income allocation					
Adjusted net income/(loss) (non-GAAP) from continuing operations	$(816)	$(1,431)	$(766)	$207	$533
Adjusted diluted EPS (non-GAAP) from continuing operations	$(2.67)	$(5.74)	$(3.49)	$0.94 (9)	$2.24

(1) Tax effect was calculated using the Company's statutory rate of 38.82%.

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

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(3) Tax effect for the three months ended May 4, 2013 was calculated using the Company's statutory rate of 38.82%. The last nine months of 2013 reflects no tax effect due to the impact of the Company's tax valuation allowance.
(4) Tax effect was calculated using the effective tax rate for the transactions.
(5) Tax benefit for the last nine months of 2013 is included in the line item Tax benefit resulting from other comprehensive income allocation. See footnote 8 below.
(6) Tax effect for the three months ended May 4, 2013 was calculated using the Company's statutory rate of 38.82%.
(7) Tax effect represents state taxes payable in separately filing states related to the sale of assets.
(8) 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.
(9) Weighted average shares–diluted of 220.7 million was used for this calculation as 2011 adjusted income/(loss) from continuing operations was positive. 3.3 million shares were added to weighted average shares–basic of 217.4 million for assumed dilution for stock options, restricted stock awards and stock warrant.

Free Cash Flow

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, pay-down of pension debt, and other obligations or payments made for business acquisitions. Therefore, it is important to view free cash flow in addition to, rather than as a substitute for, our entire statement of cash flows and those measures prepared in accordance with GAAP.

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

($ in millions)	2014	2013	2012	2011	2010
Net cash provided by/(used in) operating activities (GAAP)	$239	$(1,814)	$(10)	$820	$592
Less:					
Capital expenditures	(252)	(951)	(810)	(634)	(499)
Dividends paid, common stock	—	—	(86)	(178)	(189)
Tax benefit from pension contribution	—	—	—	—	(152)
Plus:					
Discretionary cash pension contribution	—	—	—	—	392
Proceeds from sale of operating assets	70	19	—	15	14
Free cash flow (non-GAAP)	$57	$(2,746)	$(906)	$23	$158

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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.

2014 Executive Overview

Sales were $12,257 million, an increase of 3.4% as compared to 2013, and comparable store sales increased 4.4%.

Gross margin as a percentage of sales was 34.8% compared to 29.4% last year. The increase in gross margin as a percentage of sales is primarily due to the decrease in clearance sales as a percentage of total sales and an increase in margin on those clearance sales over the prior year.

Selling, general and administrative (SG&A) expenses decreased $121 million, or 2.9%, as compared to 2013.

Our net loss was $771 million, or $2.53 per share, compared to a net loss of $1,388 million, or $5.57 per share, in 2013. Results for 2014 included the following amounts that are not directly related to our ongoing core business operations:

$87 million, or $0.29 per share, of restructuring and management transition charges;
$2 million of income, or $0.01 per share, for the impact of our qualified defined benefit pension plan (Primary Pension Plan) expense;
$34 million, or $0.11 per share, for the loss on extinguishment of debt;
$25 million, or $0.08 per share, for the net gain on the sale or redemption of non-operating assets;
$53 million, or $0.17 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
$88 million, or $0.28 per share, for certain net gains.

Net income/(loss) from continuing operations before net interest expense, income tax (benefit)/expense and depreciation and amortization (EBITDA) was a positive $323 million for 2014, an improvement of over $1.1 billion compared to a negative EBITDA of $819 million in 2013. Adjusted EBITDA, adjusted for the amounts disclosed above that are not directly related to our ongoing core business operations, was a positive $242 million for 2014 compared to a negative adjusted EBITDA of $636 million in 2013.

On June 20, 2014, J. C. Penney Company, Inc., JCP and J. C. Penney Purchasing Corporation (Purchasing) entered into a $2,350 million senior asset-based credit facility (2014 Credit Facility), comprised of a $1,850 million revolving line of credit (Revolving Facility) and a $500 million term loan (2014 Term Loan).

During the third quarter of 2014, we completed an offering of $400 million aggregate principal amount of 8.125% Senior Unsecured Notes due 2019 (2019 Notes). The majority of the net proceeds of the offering were used to pay the tender consideration and related transaction fees and expenses for our contemporaneous cash tender offers (2014 Tender Offers) for $327 million aggregate principal amount of our outstanding 6.875% Medium-Term Notes due 2015 (2015 Notes), 7.65% Debentures due 2016 (2016 Notes) and 7.95% Debentures due 2017 (2017 Notes).

In October 2014, subsequent to the completion of the 2014 Tender Offers, we used $64 million of available cash to effect a legal defeasance of the remaining outstanding principal amount of 2015 Notes by depositing funds with the

Trustee for the 2015 Notes sufficient to make all payments of interest and principal on the outstanding 2015 Notes to the stated maturity of October 15, 2015.

Effective November 1, 2014, the Board of Directors (Board) elected Marvin R. Ellison as President and CEO-Designee and a Director of the Company. He will succeed Myron E. Ullman, III as CEO of the Company on August 1, 2015. At that time, Mr. Ullman will become Executive Chairman of the Board for a period of one year.

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Results of Operations

Three-Year Comparison of Operating Performance (in millions, except per share data)	2014	2013	2012
Total net sales	$12,257	$11,859	$12,985
Percent increase/(decrease) from prior year	3.4 %	(8.7)%[1]	(24.8)%[1]
Comparable store sales increase/(decrease)[2]	4.4 %	(7.4)%	(25.1)%
Gross margin	4,261	3,492	4,066
Operating expenses/(income):			
Selling, general and administrative	3,993	4,114	4,506
Pension	6	137	353
Depreciation and amortization	631	601	543
Real estate and other, net	(148)	(155)	(324)
Restructuring and management transition	87	215	298
Total operating expenses	4,569	4,912	5,376
Operating income/(loss)	(308)	(1,420)	(1,310)
As a percent of sales	(2.5)%	(12.0)%	(10.1)%
Loss on extinguishment of debt	34	114	—
Net interest expense	406	352	226
Income/(loss) before income taxes	(748)	(1,886)	(1,536)
Income tax (benefit)/expense	23	(498)	(551)
Net income/(loss)	$(771)	$(1,388)	$(985)
EBITDA[3]	$323	$(819)	$(767)
Adjusted EBITDA[3]	$242	$(636)	$(396)
Adjusted net income/(loss) (non-GAAP)[3]	$(816)	$(1,431)	$(766)
Diluted EPS	$(2.53)	$(5.57)	$(4.49)
Adjusted diluted EPS (non-GAAP)[3]	$(2.67)	$(5.74)	$(3.49)
Weighted average shares used for diluted EPS	305.2	249.3	219.2

(1) Includes the effect of the 53rd week in 2012. Excluding sales of $163 million for the 53rd week in 2012, total net sales decreased 7.5% and 25.7% in 2013 and 2012, respectively.

(2) Comparable store sales are presented on a 52-week basis and include sales from new and relocated stores that have been opened 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 closures remain in the calculations. Beginning in 2014, the Company simplified its comparable store sales calculation to better reflect year-over-year comparability. Certain items, such as sales return estimates and store liquidation sales, are now excluded from the Company's calculation. Prior periods have been adjusted to reflect this new methodology. Our definition and calculation of comparable store sales may differ from other companies in the retail industry.

(3) See Item 6, Selected Financial Data, for a discussion of this non-GAAP financial measure and reconciliation to its most directly comparable GAAP financial measure.

2014 Compared to 2013

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.

	2014	2013
Total net sales (in millions)	$12,257	$11,859
Sales percent increase/(decrease)		
Total net sales[(1)]	3.4 %	(8.7)%[(1)]
Comparable store sales[(2)]	4.4 %	(7.4)%
Sales per gross square foot[(3)]	$113	$107

(1) Includes the effect of the 53rd week in 2012. Excluding sales of $163 million for the 53rd week in 2012, total net sales decreased 7.5% in 2013.

(2) Comparable store sales are presented on a 52-week basis and include sales from new and relocated stores that have been opened 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 closures remain in the calculations. Beginning in 2014, the Company simplified its comparable store sales calculation to better reflect year-over-year comparability. Certain items, such as sales return estimates and store liquidation sales, are now excluded from the Company's calculation. Prior periods have been adjusted to reflect this new methodology. Our definition and calculation of comparable store sales may differ from other companies in the retail industry.

(3) Calculation includes the sales and square footage of department stores that were open for the full fiscal year, as well as Internet sales.

Total net sales increased $398 million in 2014 compared to 2013. The following table provides the components of the net sales increase:

($ in millions)	2014
Comparable store sales, including Internet	$508
Sales of closed (non-comparable) stores, net	(90)
Other revenues and sales adjustments	(20)
Total net sales increase/(decrease)	$398

In 2014, comparable store sales increased 4.4%. Total net sales increased 3.4% to $12,257 million compared with $11,859 million in 2013 and Internet sales increased 13.4% to $1,225 million.

Both total net sales and comparable store sales increased during 2014 as we gained market share in a highly competitive environment. Internet sales grew at a faster rate compared to our department stores and were positively impacted by our new mobile application that creates an enhanced digital experience. In addition, we continue to move closer to a true omni-channel state with our continuation of "ship to stores" and "ship from stores" and our planned roll out in 2015 of "pick up in store same day".

Based on a sample of our mall and off-mall stores, our store traffic, while negative for 2014, improved sequentially each quarter. Additionally, conversion improved for 2014 as compared to the prior year. For 2014, the average transaction value and average unit retail increased, while the units per transaction decreased as compared to the prior year. All geographic regions experienced sales increases for 2014 compared to the prior year. During 2014, most of our divisions experienced a sales increase, with our home and women's accessories divisions, including Sephora, which reflected the addition of 46 Sephora inside JCPenney locations, experiencing the highest sales increases. Our childrens and footwear divisions were the only divisions that experienced sales declines.

Gross Margin

Gross margin is a measure of profitability of a retail company at the most fundamental level of buying and selling merchandise and measures a company's ability to effectively manage the total costs of sourcing and allocating merchandise against the corresponding retail pricing. Gross margins not only cover marketing, selling and other

operating expenses, but also must include a profit element. Gross margin is the difference between total net sales and cost of the merchandise sold and is typically expressed as a percentage of total net sales. The cost of merchandise sold includes all direct costs of bringing merchandise to its final selling destination.

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These costs include:

- cost of the merchandise (net of discounts or allowances earned)
- freight
- warehousing
- sourcing and procurement
- buying and brand development costs including buyers' salaries and related expenses
- royalties and brand design fees
- merchandise examination
- inspection and testing
- merchandise distribution center expenses
- shipping and handling costs incurred on sales via the Internet

Gross margin increased to 34.8% of sales in 2014, or 540 basis points, compared to 2013. On a dollar basis, gross margin increased $769 million, or 22.0%, to $4,261 million in 2014 compared to $3,492 million in the prior year. The net 540 basis point increase resulted primarily from the change in merchandise mix largely related to better clearance sales performance as a result of fewer units of clearance merchandise sold at higher clearance margins and higher re-ticketing costs in the prior year as a result of moving back to a promotional strategy.

SG&A Expenses

The following costs are included in SG&A expenses, except if related to merchandise buying, sourcing, warehousing or distribution activities:

- salaries
- marketing
- occupancy and rent
- utilities and maintenance
- information technology
- administrative costs related to our home office, district and regional operations
- credit/debit card fees
- real property, personal property and other taxes (excluding income taxes)

SG&A expenses declined $121 million to $3,993 million in 2014 compared to $4,114 million in 2013. As a percent of sales, SG&A expenses were 32.6% compared to 34.7% in the prior year. The net 210 basis point decrease primarily resulted from lower store expenses, advertising costs and corporate overhead throughout the period and higher income from the JCPenney private label credit card activities, which is recorded as a reduction of our SG&A expenses. These decreases were slightly offset by an increase in incentive compensation.

Pension Expense

($ in millions)	2014	2013
Primary pension plan expense/(income)	$(2)	$100
Supplemental pension plans expense	8	37
Total pension expense	$6	$137

Total pension expense, which consists of our Primary Pension Plan expense and our supplemental pension plans expense, is based on our prior year-end measurement of pension plan assets and benefit obligations. Primary Pension Plan expense for 2014 decreased $102 million to income of $2 million, compared with $100 million of expense in 2013. The change to income for our Primary Pension Plan was primarily a result of improved asset performance in prior periods, higher fair value of plan assets and a 70 basis point increase in our discount rate. During 2014 and 2013, supplemental pension plans expense was $8 million and $37 million, respectively. During 2014, we transferred $56 million of supplemental pension plan benefits, as allowed under the Employee Retirement Income Security Act of 1974, out of our supplemental pension plans and into our Primary Pension Plan. The transfer did not have a significant

impact on our Consolidated Financial Statements; however, the transfer of benefits resulted in a one-time expense of $15 million to our Primary Pension Plan and an offsetting $15 million benefit to our supplemental pension plans during 2014.

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Based on our 2014 year-end measurement of Primary Pension Plan assets and benefit obligations, our 2015 Primary Pension Plan expense will change to an expense of $19 million compared to income of $2 million in 2014. The increase in pension expense is primarily driven by a 102 basis point decline in our discount rate; the adoption of new mortality tables for the majority of the plan participants which reflect longer life expectations and anticipated rates of improvement in life expectancy compared to previous mortality assumptions; and lowering the expected return on plan assets from 7.0% to 6.75%. These negative impacts were partially offset by strong asset performance in 2014.

Depreciation and Amortization Expenses

Depreciation and amortization expense in 2014 increased $30 million to $631 million, or 5.0%, compared to $601 million in 2013. This increase is a result of our investment and replacement of store fixtures in connection with the implementation of our prior strategy. Depreciation and amortization expense for 2013 excludes $37 million of increased depreciation as a result of shortening the useful lives of department store fixtures that were replaced during 2013 with the build out of our home department and other attractions. These amounts are included in the line Restructuring and management transition in the Consolidated Statements of Operations.

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 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 new joint venture was formed to develop the contributed property and our proportional share of the joint venture's activities will be recorded in Real estate and other, net.

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

($ in millions)	2014		2013	
Gain on sale or redemption of non-operating assets, net:				
Sale of Simon Property Group, L.P. (SPG) real estate investment trusts units (REITs)	$—		$(24	)
Sale of investments in joint ventures	—		(85	)
Sale of other non-operating assets	(25	)	(23	)
Net gain on sale or redemption of non-operating assets	(25	)	(132	)
Dividend income from REITs	—		(1	)
Investment income from home office land joint venture	(53	)	—	
Investment income from joint ventures	(1	)	(6	)
Net gain from sale of operating assets	(92	)	(17	)
Store impairments	30		18	
Intangible asset impairment	—		9	
Other	(7	)	(26	)
Total expense/(income)	$(148	)	$(155	)

Monetization of Non-operating Assets

As part of our strategy to monetize assets that are not core to our operations, during 2014 we generated $35 million of cash and recognized a net gain of $25 million from the sale of several non-operating assets. During 2013, we generated $143 million of cash and recognized a net gain of $132 million. The monetization of non-operating assets primarily included the following:

Sale of REIT Asset

In November 2013, we converted 205,000 REIT units of SPG into SPG shares, which were sold in December 2013 at an average price of $151.97 per share for a total price of $31 million, net of fees, and a realized net gain of $24 million.

Sale of Investments in Joint Ventures

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

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Sale of Other Non-Operating Assets
During the fourth quarter of 2014, we sold two properties used in our former auto center operations and excess property adjacent to our home office facility not contributed to the Home Office Land Joint Venture for net proceeds of $7 million, resulting in net gains totaling $2 million.

During the third quarter of 2014, we sold one closed store and one additional property used in our former auto center operations for net proceeds and a gain of $2 million.

During the second quarter of 2014, we sold four additional properties used in our former auto center operations for net proceeds of $11 million, resulting in net gains totaling $9 million.

During the first quarter of 2014, we sold four properties used in our former auto center operations and excess property adjacent to our home office facility not contributed to the Home Office Land Joint Venture for net proceeds of $15 million, resulting in net gains totaling $12 million.

During the fourth quarter of 2013, we sold 10 properties used in our former auto center operations for net proceeds of $25 million, resulting in net gains totaling $22 million. During the third quarter of 2013, we sold approximately 10 acres of excess land for net proceeds and a gain of $1 million.

Sale of Operating Assets
During the first quarter of 2014, we sold a former department store location with a net book value of $1 million for net proceeds of $2 million, realizing a gain of $1 million. During the third quarter of 2014, we sold three department store locations and recognized a net gain on a payment received from a landlord to terminate an existing lease prior to its original expiration date for total net proceeds of $66 million and a net gain of $90 million. During the fourth quarter of 2014, we sold one department store location for net proceeds of $2 million, resulting in a net gain of $1 million.

During the first quarter of 2013, we sold our leasehold interest of a former department store location with a net book value of $2 million for net proceeds of $18 million, realizing a gain of $16 million. During the second quarter of 2013, we sold two properties for total net proceeds and a gain of $1 million.

Impairments
In 2014, store impairments totaled $30 million and related to 19 underperforming department stores that continued to operate.

In 2013, store impairments totaled $18 million and related to 25 underperforming department stores that continued to operate. In addition, during the fourth quarter of 2013, we recorded a $9 million impairment charge for our ownership of the U.S. and Puerto Rico rights of the monet trade name.

See restructuring and management transition charges below for additional impairments related to stores closed in 2014 and stores scheduled to be closed in 2015.

Investment Income from Joint Ventures
During the second quarter of 2014, the Company recorded $43 million for our proportional share of net income from the Home Office Land Joint Venture and received an aggregate cash distribution of $51 million. During the fourth quarter of 2014, the Company recorded $10 million for our proportional share of net income from the Home Office Land Joint Venture and received an aggregate cash distribution of $7 million.

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Restructuring and Management Transition Charges

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

($ in millions)	2014	2013
Home office and stores	$45	$48
Store fixtures	—	55
Management transition	16	37
Other	26	75
Total	$87	$215

Home office and stores

In 2014 and 2013, we recorded $45 million and $48 million, respectively, of costs to reduce our store and home office expenses. During the nine months ended November 1, 2014, we recorded $15 million of charges for actions taken to reduce our home office and store expenses. In January 2015, we announced the closing of 40 department stores, and as a result, during the fourth quarter of 2014, we incurred charges of $20 million related to asset impairments and $1 million of employee termination benefit costs. Additionally, we incurred $9 million of other miscellaneous store restructuring costs during 2014.

During the first three quarters of 2013, we recorded $26 million of employee termination benefits for both store and home office associates. In addition, in January 2014, we announced a strategic initiative to close 33 underperforming stores as part of our turnaround efforts. In conjunction with this initiative, during the fourth quarter of 2013, we incurred charges of $21 million related to asset impairments and $1 million of employee termination benefit costs.

Store Fixtures

During 2013, we recorded a total charge of $55 million related to store fixtures which consisted of $37 million of increased depreciation as a result of shortening the useful lives of department store fixtures that were replaced throughout 2013, $11 million of charges for the impairment of certain store fixtures related to our former shops strategy that had been used in our prototype department store and a $7 million asset write down of store fixtures related to the renovations in our home department.

Management transition

During 2014 and 2013, we implemented several changes within our management leadership team that resulted in management transition costs of $16 million and $37 million, respectively, for both incoming and outgoing members of management.

Other

During 2014 and 2013, we recorded miscellaneous restructuring charges of $26 million and $75 million, respectively. The charges during 2014 and 2013 were primarily related to contract termination costs and other costs associated with our previous marketing and shops strategy, including a non-cash charge of $36 million during the third quarter of 2013 related to the return of shares of Martha Stewart Living Omnimedia, Inc. (MSLO) previously acquired by the Company, which was accounted for as a cost investment.

Operating Income/(Loss)

For 2014, we reported an operating loss of $308 million compared to an operating loss of $1,420 million in 2013, which is an improvement of $1,112 million.

Loss on Extinguishment of Debt

During the third quarter of 2014, we completed an offering of $400 million aggregate principal amount of our 2019 Notes. The majority of the net proceeds of the offering were used to pay the tender consideration and related transaction fees and expenses for our contemporaneous cash 2014 Tender Offers for $327 million aggregate principal

amount of our outstanding 2015 Notes, 2016 Notes and 2017 Notes (the Securities). In October 2014, subsequent to the completion of the 2014 Tender Offers, we used $64 million of available cash to effect a legal defeasance of the remaining outstanding principal amount of 2015 Notes by depositing funds with the Trustee for the 2015 Notes sufficient to make all payments of interest and principal on the outstanding 2015 Notes to the stated maturity of October 15, 2015. These transactions resulted in a loss on extinguishment of debt of $34 million which includes the premium paid over face value of the accepted Securities of $29 million, $4 million for the portion of the deposited funds for future interest payments on the 2015 Notes and reacquisition costs of $1 million.

During the second quarter of 2013, we paid $355 million to complete a cash tender offer and consent solicitation with respect to substantially all of our outstanding 7.125% Debentures due 2023. In doing so, we also recognized a loss on extinguishment of

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debt of $114 million, which included the premium paid over face value of the debentures of $110 million, reacquisition costs of $2 million and the write-off of unamortized debt issuance costs of $2 million.

Net Interest Expense

Net interest expense consists principally of interest expense on long-term debt, net of interest income earned on cash and cash equivalents. Net interest expense was $406 million, an increase of $54 million, or 15.3%, from $352 million in 2013. The increase in net interest expense is primarily related to the increased interest expense associated with the previous borrowings under our former revolving credit facility (2013 Credit Facility), the $2.25 billion five-year senior secured term loan that was entered into in May 2013 (2013 Term Loan), the 2014 Term Loan and the additional debt that was outstanding during the third quarter of 2014 as a result of the timing of our debt transactions. In addition, during the second quarter of 2014, the Company expensed $9 million of capitalized debt issue costs associated with our previous credit facility that was replaced by our 2014 Credit Facility.

Income Taxes

Our net deferred tax assets, which include the future tax benefits of our net operating loss carryforwards, are subject to a valuation allowance. At January 31, 2015, the federal and state valuation allowances were $586 million and $198 million, respectively. 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 our year ended February 1, 2014, 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 our year ended January 31, 2015 we experienced losses in both continuing operations and other comprehensive income. Under the allocation rules we are required to recognize the valuation allowance allocable to the tax benefit attributable to these losses in each component of comprehensive income. Accordingly, included in the total valuation allowance of $784 million noted above is $169 million of valuation allowance which offsets the deferred tax benefit attributable to the actuarial loss reported in other comprehensive income.

For the year ended January 31, 2015, we recorded a net tax expense of $23 million resulting in an effective tax rate of 3.1%. The net tax expense included $7 million related to the amortization of certain indefinite-lived intangible assets, $10 million for state and foreign jurisdictions where loss carryforwards are limited or unavailable and $6 million for federal and state audit settlements.

For the year ended February 1, 2014, we recorded a net tax benefit of $498 million resulting in an effective tax rate of (26.4)%. The net tax benefit consisted of net federal, foreign and state tax benefits of $197 million, a $303 million tax benefit resulting from actuarial gains in other comprehensive income, offset by $2 million of tax expense related to the amortization of certain indefinite-lived intangible assets. The $303 million tax benefit recorded on the loss in continuing operations was offset by income tax expense in other comprehensive income of $303 million.

EBITDA and Adjusted EBITDA (non-GAAP)

In 2014, EBITDA was a positive $323 million, an improvement of $1,142 million compared to a negative EBITDA of $819 million in the prior year corresponding period. Excluding restructuring and management transition charges, the impact of our Primary Pension Plan expense/(income), the net gain on the sale of non-operating assets, the proportional share of net income from the Home Office Land Joint Venture and certain net gains, adjusted EBITDA was positive, improving $878 million to an adjusted EBITDA of $242 million for 2014 compared to a negative

adjusted EBITDA of $636 million for the prior year corresponding period.

Overall, EBITDA and adjusted EBITDA improved significantly in 2014 as compared to the corresponding prior year periods as we were able to improve sales, achieve higher margins and reduce our operating costs.

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

In 2014, we reported a loss of $771 million, or $2.53 per share, compared with a loss of $1,388 million, or $5.57 per share, last year. Excluding the impact of restructuring and management transition charges, the impact of our Primary Pension Plan expense, the loss on extinguishment of debt, the net gain on sale of non-operating assets, the proportional share of net income from joint venture, certain net gains and the tax impact resulting from other comprehensive income allocation, adjusted net

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income/(loss) (non-GAAP) went from a loss of $1,431 million, or $5.74 per share, in 2013 to a loss of $816 million, or $2.67 per share, in 2014.

2013 Compared to 2012

Total Net Sales

	2013	2012
Total net sales (in millions)	$11,859	$12,985
Sales percent increase/(decrease)		
Total net sales[1]	(8.7)%	(24.8)%
Comparable store sales[2]	(7.4)%	(25.1)%
Sales per gross square foot[3]	$107	$116

(1) Includes the effect of the 53rd week in 2012. Excluding sales of $163 million for the 53rd week in 2012, total net sales decreased 7.5% and 25.7% in 2013 and 2012, respectively.

(2) Comparable store sales are presented on a 52-week basis and include sales from new and relocated stores that have been opened 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 closures remain in the calculations. Beginning in 2014, the Company simplified its comparable store sales calculation to better reflect year-over-year comparability. Certain items, such as sales return estimates and store liquidation sales, are now excluded from the Company's calculation. Prior periods have been adjusted to reflect this new methodology. Our definition and calculation of comparable store sales may differ from other companies in the retail industry.

(3) Calculation includes the sales and square footage of department stores that were open for the full fiscal year, as well as Internet sales.

Total net sales decreased $1,126 million in 2013 compared to 2012. The following table provides the components of the net sales decrease:

($ in millions)	2013
Comparable store sales, including Internet	$(944)
Sales of new and closed (non-comparable) stores, net	(183)
Other revenues and sales adjustments	1
Total net sales increase/(decrease)	$(1,126)

In 2013, comparable store sales decreased 7.4%. Total net sales decreased 8.7% to $11,859 million compared with $12,985 million in 2012 and Internet sales increased 5.5% to $1,079 million. Excluding sales of $163 million for the 53rd week in 2012, total net sales decreased 7.5%. Internet sales experienced an increase during the year primarily as a result of better in-stock merchandise positions, improvements in site performance and a favorable response to our promotional activity.

The decline in total net sales was primarily related to our prior strategy that did not resonate with our customers. The prior strategy focused on everyday low prices, substantially eliminated promotional activities, emphasized brands in a shops presentation and introduced new merchandise brands. Fiscal 2013 was a transitional year in which we worked to stabilize our business and to rebuild the Company, working to create strategies to reconnect with our core customer. During 2013, we began editing our merchandise assortments and undertaking several merchandise initiatives to make assortments more compelling to customers, reintroducing some of our private brands and returning the majority of our business to a promotional model. We saw a positive response to these efforts as our 2013 comparable store sales improved sequentially each quarter, with the fourth quarter delivering a comparable store sales gain of 1.4%, which was our first quarterly comparable store sales gain since the second quarter of 2011.

Based on a sample of our mall and off-mall stores, our store traffic and conversion rate decreased compared to 2012. The number of store transactions and the total number of units decreased while the average number of units per transaction increased slightly during 2013 as compared to 2012. All geographic regions experienced sales declines for 2013 compared to the prior year. During 2013, the women's accessories division, including Sephora, which reflected the addition of 60 Sephora inside JCPenney locations, experienced a slight sales increase. All other divisions experienced sales declines with men's and women's apparel, jewelry and footwear experiencing the smallest declines and home and children's experiencing the largest declines.

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Gross Margin

($ in millions)	2013	2012
Gross margin	$3,492	$4,066
As a percent of sales	29.4 %	31.3 %

Gross margin decreased to 29.4% of sales in 2013, or 190 basis points, compared to 2012. On a dollar basis, gross margin decreased $574 million, or 14.1%, to $3,492 million in 2013 compared to $4,066 million in the prior year. The net 190 basis point decrease resulted from a decrease primarily from the change in merchandise mix sold primarily related to sales of clearance merchandise at lower margins as compared to 2012, including additional markdowns taken to sell through inventory associated with our previous strategy, as well as our transition back to a promotional pricing strategy, including re-ticketing costs on selected merchandise, and reduced vendor cost concessions.

SG&A Expenses

($ in millions)	2013	2012
SG&A	$4,114	$4,506
As a percent of sales	34.7 %	34.7 %

SG&A expenses declined $392 million to $4,114 million in 2013 compared to $4,506 million in 2012. As a percent of sales, SG&A expenses were flat with last year at 34.7%. The net savings resulted primarily from lower salaries and related benefits; higher income from the JCPenney private label credit card activities, which is recorded as a reduction of our SG&A expenses; lower utilities; savings in advertising expenses; and lower general store expense, support costs and rent.

Pension Expense

($ in millions)	2013	2012
Primary pension plan expense	$100	$167
Primary pension plan settlement expense	—	148
Total primary pension plan expense	100	315
Supplemental pension plans expense	37	38
Total pension expense	$137	$353

Primary Pension Plan expense for 2013 decreased $67 million to $100 million, compared with $167 million in 2012, excluding the settlement charge of $148 million incurred during the fourth quarter of 2012. The decrease in Primary Pension Plan expense for 2013 was a result of lower amortization of our actuarial loss due to certain lump-sum settlements in 2012, lower service cost due to a decrease in the number of participants accruing benefits and strong asset performance in 2012. These decreases were partially offset by an approximately 60 basis point decrease in our discount rate and a 50 basis point decrease in our assumed expected return on assets. During the fourth quarter of 2012, we recognized settlement expense of $148 million for unrecognized actuarial losses related to participants who separated from service and had a deferred vested benefit as of August 31, 2012 who elected to receive a lump-sum settlement payment as a result of a plan amendment. During 2013 and 2012, supplemental pension plans expense was $37 million and $38 million, respectively.

Depreciation and Amortization Expense

Depreciation and amortization expense in 2013 increased $58 million to $601 million, or approximately 10.7%, compared to $543 million in 2012. This increase is a result of our investment and replacement of store fixtures in connection with the implementation of our prior strategy. Depreciation and amortization expense for 2013 and 2012 excluded $37 million and $25 million, respectively, of increased depreciation as a result of shortening the useful lives of department store fixtures that were replaced during 2013 with the build out of our home department and other attractions. These amounts were included in the line Restructuring and management transition in the Consolidated

Statements of Operations.

Real Estate and Other, Net

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

($ in millions)	2013	2012
Gain on sale or redemption of non-operating assets, net		
Sale or redemption of Simon Property Group, L.P. (SPG) REIT units	$(24)	$(200)
Sale of CBL & Associates Properties, Inc. (CBL) REIT shares	—	(15)
Sale of leveraged leases	—	(28)
Sale of investment in joint ventures	(85)	(151)
Sale of other non-operating assets	(23)	(3)
Net gain on sale or redemption of non-operating assets	(132)	(397)
Dividend income from REITs	(1)	(6)
Investment income from joint ventures	(6)	(11)
Net gain from sale of operating assets	(17)	—
Store impairments	18	26
Intangible asset impairment	9	—
Operating asset impairments	—	60
Other	(26)	4
Total expense/(income)	$(155)	$(324)

Monetization of Non-operating Assets

As part of our strategy to monetize assets that are not core to our operations, during 2013 we generated $143 million of cash and recognized a net gain of $132 million from the sale of several non-operating assets. During 2012, we generated $526 million of cash and recognized a net gain of $397 million. The monetization of non-operating assets primarily included the following:

Sale or Redemption of REIT Assets

On July 20, 2012, SPG redeemed two million of our REIT units at a price of $124.00 per unit for a total redemption price of $246 million, net of fees. As of the market close on July 19, 2012, the SPG REIT units had a fair market value of $158.13 per unit. In connection with the redemption, we realized a net gain of $200 million determined using the first-in-first-out method for determining the cost of REIT units sold. Following the transaction, we continued to hold approximately 205,000 REIT units in SPG. In November 2013, we converted our remaining 205,000 REIT units into SPG shares, which were sold in December 2013 at an average price of $151.97 per share for a total price of $31 million, net of fees, and a realized net gain of $24 million.

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

Sale of Leveraged Leases

During the third quarter of 2012, we sold all of our leveraged leases for $146 million, net of fees. The investments in the leveraged leases as of the dates of the sales were $118 million and were recorded in Other assets in the Consolidated Balance Sheets. In connection with the sales, we recorded a net gain of $28 million.

Sale of Investments in Joint Ventures

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

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

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Sale of Other Non-Operating Assets
During the fourth quarter of 2013, we sold 10 properties used in our former auto center operations for net proceeds of $25 million, resulting in net gains totaling $22 million. During the third quarter of 2013, we sold approximately 10 acres of excess land for net proceeds and a gain of $1 million.

During the third quarter of 2012, we sold a building used in our former drugstore operations with a net book value of zero for $3 million, resulting in a net gain of $3 million.

Sale of Operating Assets
During the first quarter of 2013, we sold our leasehold interest of a former department store location with a net book value of $2 million for net proceeds of $18 million, realizing a gain of $16 million. During the second quarter of 2013, we sold two properties for total net proceeds and a gain of $1 million.

Impairments
In 2013, store impairments totaled $18 million and related to 25 underperforming department stores that continued to operate. In addition, during the fourth quarter of 2013, we recorded a $9 million impairment charge for our ownership of the U.S. and Puerto Rico rights of the monet® trade name. See restructuring and management transition charges below for additional impairments related to stores that closed in 2014.

In 2012, store impairments totaled $26 million and related to 13 underperforming department stores that continued to operate. In addition, during the fourth quarter of 2012, we wrote off $60 million of store-related operating assets that were no longer being used in our operations.

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

($ in millions)	2013	2012
Supply chain	$—	$19
Home office and stores	48	109
Software and systems	—	36
Store fixtures	55	78
Management transition	37	41
Other	75	15
Total	$215	$298

Supply chain
As a result of consolidating and streamlining our supply chain organization as part of a restructuring program that began in 2011, we recorded charges of $19 million in 2012 related to increased depreciation, termination benefits and unit closing costs. Increased depreciation resulted from shortening the useful lives of assets related to the closing and consolidating of selected facilities. This restructuring activity was completed during the third quarter of 2012.

Home office and stores
In 2013 and 2012, we recorded $48 million and $109 million, respectively, of costs to reduce our store and home office expenses. During the first three quarters of 2013, we recorded $26 million of employee termination benefits for both store and home office associates. In addition, in January 2014, we announced a strategic initiative to close 33 underperforming stores as part of our turnaround efforts. In conjunction with this initiative, during the fourth quarter of 2013 we incurred charges of $21 million related to asset impairments and $1 million of employee termination benefit costs.

In 2012, charges of $116 million associated with employee termination benefits for both store and home office associates were offset by a net curtailment gain of $7 million related to our retirement benefit plans, which was incurred during the third quarter of 2012 when substantially all employee exits related to 2012 were completed, for a net charge of $109 million.

Software and systems

During 2012, we recorded a charge of $36 million related to the disposal of software and systems that based on our evaluation no longer supported our operations. This amount included $3 million of consulting fees related to that evaluation.

Store Fixtures
During 2013, we recorded a total charge of $55 million related to store fixtures which consisted of $37 million of increased depreciation as a result of shortening the useful lives of department store fixtures that were replaced throughout 2013, $11 million of charges for the impairment of certain store fixtures related to our former shops strategy that had been used in our prototype department store and a $7 million asset write down of store fixtures related to the renovations in our home department.

During 2012, we recorded a total charge of $78 million related to store fixtures which consisted of a $53 million asset write-off related to the removal of store fixtures in our department stores and $25 million of increased depreciation as a result of shortening the useful lives of department store fixtures that were replaced throughout 2013 with the build out of additional shops.

Management transition
During 2013 and 2012, we implemented several changes within our management leadership team that resulted in management transition costs of $37 million and $41 million, respectively, for both incoming and outgoing members of management.

Other
During 2013 and 2012, we recorded $75 million and $15 million, respectively, of miscellaneous restructuring charges. The charges during 2013 were primarily related to contract termination costs and other costs associated with our previous marketing and shops strategy, including a non-cash charge of $36 million during the third quarter related to the return of shares of Martha Stewart Living Omnimedia, Inc. previously acquired by the Company, which was accounted for as a cost investment. The charges in 2012 were primarily related to the exit of our specialty websites CLAD™ and Gifting Grace™ in the first quarter of 2012, and costs associated with the closing of our Pittsburgh, Pennsylvania customer call center in the second quarter of 2012.

Operating Income/(Loss)
For 2013, we reported an operating loss of $1,420 million compared to an operating loss of $1,310 million in 2012.

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

Net Interest Expense
Net interest expense was $352 million, an increase of $126 million, or 55.8%, from $226 million in 2012. The increase in net interest expense is primarily related to the increased interest expense associated with the borrowings under our revolving credit facility which bore interest at a rate of LIBOR plus 3.0% and the $2.25 billion five-year senior secured term loan that was entered into in May 2013 which bears interest at a rate of LIBOR plus 5.0%.

Income Taxes
Beginning in the second quarter of 2013, as a result of our net deferred tax position changing from a net deferred tax liability to a net deferred tax asset (exclusive of any valuation allowance), we determined that an increase in the valuation allowance was needed. In assessing the need for the valuation allowance, we considered both positive and negative evidence related to the likelihood of realization of the deferred tax assets. As a result of our assessment, we concluded that our estimate of the realization of deferred tax assets would be based solely on the future reversals of existing taxable temporary differences and tax planning strategies that we would make use of to accelerate taxable income to utilize expiring net operating loss (NOL) and tax credit carryforwards. As of February 1, 2014, a valuation

allowance of $304 million was recorded against our deferred tax assets.

For the year ended February 1, 2014, we recorded a net tax benefit of $498 million resulting in an effective tax rate of (26.4)%. The net tax benefit consisted of net federal, foreign and state tax benefits of $197 million, a $303 million tax benefit resulting from actuarial gains in other comprehensive income, offset by $2 million of tax expense related to the amortization of certain indefinite-lived intangible assets. In accordance with accounting standards, we are required to allocate a portion of our tax provision between operating losses and accumulated other comprehensive income. As a result, the Company recorded a tax benefit on the loss for the year, which was offset by income tax expense in other comprehensive income of $303 million.

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In 2012, we recorded an income tax benefit of $551 million, resulting in an effective tax rate of (35.9)%. Our income tax benefit for 2012 was impacted by the establishment of a $66 million valuation allowance relating to state NOL carryforwards in certain separate filing states.

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

In 2013, we reported a loss of $1,388 million, or $5.57 per share, compared with a loss of $985 million, or $4.49 per share, in 2012. Excluding the impact of markdowns related to the alignment of inventory with our prior strategy, restructuring and management transition charges, the impact of our Primary Pension Plan expense, the loss on extinguishment of debt, the net gain on sale or redemption of non-operating assets and the tax benefit from income related to actuarial gains included in other comprehensive income, adjusted net income/(loss) (non-GAAP) went from a loss of $766 million, or $3.49 per share, in 2012 to a loss of $1,431 million, or $5.74 per share, in 2013.

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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 2014, we completed the following transactions to enhance our liquidity:

- In June 2014, J. C. Penney Company, Inc., JCP and Purchasing entered into the 2014 Credit Facility, comprised of a $1,850 million Revolving Facility and the $500 million 2014 Term Loan;
- During the third quarter of 2014, we completed an offering of $400 million aggregate principal amount of 2019 Notes. The majority of the net proceeds of the offering were used to pay the tender consideration and related transaction fees and expenses for our contemporaneous cash 2014 Tender Offers for $327 million aggregate principal amount of our outstanding 2015 Notes, 2016 Notes and 2017 Notes;
- In October 2014, subsequent to the completion of the 2014 Tender Offers, we used $64 million of available cash to effect a legal defeasance of the remaining outstanding principal amount of 2015 Notes by depositing funds with the Trustee for the 2015 Notes sufficient to make all payments of interest and principal on the outstanding 2015 Notes to the stated maturity of October 15, 2015.
- We generated $105 million of cash from the sale of several operating and non-operating assets.

The 2014 Credit Facility extends the maturity of the previous credit facility several years and further enhances our liquidity position, particularly during periods of peak working capital needs. Through the 2019 Notes offering, 2014 Tender Offers and debt defeasance, we were able to address our near-term debt maturities, with our next debt maturity occurring in August 2016 for $78 million.

We ended the year with $1,318 million of cash and cash equivalents, a decrease of $197 million from the prior year. As of the end of 2014, based on our borrowing base, we had $923 million available for future borrowing, of which $773 million was accessible due to the minimum excess availability threshold, providing a total available liquidity of $2.1 billion.

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

($ in millions)	2014	2013	2012
Cash and cash equivalents	$1,318	$1,515	$930
Merchandise inventory	2,652	2,935	2,341
Property and equipment, net	5,148	5,619	5,353
Total debt(1)	5,416	5,601	2,982
Stockholders’ equity	1,914	3,087	3,171
Total capital	7,330	8,688	6,153
Maximum capacity under our credit agreement	1,850	1,850	1,750
Cash flow from operating activities	239	(1,814)	(10)
Free cash flow (non-GAAP)(2)	57	(2,746)	(906)
Capital expenditures	252	951	810
Dividends paid	—	—	86
Ratios:			
Debt-to-total capital(3)	73.9%	64.5%	48.5%
Cash-to-debt(4)	24.3%	27.0%	31.2%

(1) Total debt includes short-term debt and long-term debt, capital leases, note payable and related current maturities.

(2) See Item 6, Selected Financial Data, for a discussion of this non-GAAP financial measure and reconciliation to its most directly comparable GAAP financial measure.

(3) Total debt divided by total capitalization.

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

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Free Cash Flow (Non-GAAP)
During 2014, free cash flow increased $2,803 million to an inflow of $57 million compared to an outflow of $2,746 million in 2013. This significant improvement was driven primarily by the increase in sales and operating performance of the Company and better inventory management. In addition, free cash flow was positively impacted by a decrease in capital expenditures and an increase in proceeds from the sale of operating assets during 2014 when compared to 2013.

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

In 2014, cash flow from operating activities was an inflow of $239 million, an increase of $2,053 million compared to an outflow of $1,814 million during the same period last year. Our net loss as of the end of 2014 of $771 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, the sale of operating and non-operating assets and asset impairments. Overall, the generation of cash from operations was driven primarily by the increase in sales and operating performance of the Company, including higher margins and better expense control, and better inventory management. In addition, during 2014 we received an aggregate cash distribution of $58 million from the Home Office Land Joint Venture of which $53 million was included in operating activities and $5 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 $8 million, which funded a portion of our capital expenditures in investing activities.
Merchandise inventory decreased $283 million to $2,652 million, or 9.6%, as of the end of 2014 compared to $2,935 million as of the end of last year. Merchandise inventory decreased as we were able to better manage our inventory levels during the year based on customer demand and seasonal needs. Inventory turns for 2014, 2013 and 2012 were 2.74, 2.65 and 3.03 respectively. Merchandise accounts payable increased $49 million at the end of 2014 compared to 2013.

In 2013, cash flow from operating activities was an outflow of $1,814 million, a decrease of $1,804 million compared to an outflow of $10 million during the prior year. The overall increased cash outflow from operations for 2013 related to a larger net loss for the period, the increase in cash used to restore inventory levels in basics and private branded categories during the year and cash used for the corresponding merchandise accounts payable. Cash flows from operating activities also included construction allowances from landlords of $6 million, which funded a portion of our capital expenditures in investing activities. Additionally, our net loss as of the end of fiscal 2013 of $1,388 million included significant charges and credits that did not impact operating cash flow including depreciation and amortization, restructuring and management transition charges, pension expense, loss on extinguishment of debt, an income tax benefit from income resulting from actuarial gains in other comprehensive income and asset impairments and other charges.

In 2012, cash flow from operating activities was an outflow of $10 million. Our total year 2012 net loss of $985 million included significant charges that did not impact operating cash flow including depreciation and amortization, pension expense, and restructuring and management transition. We realized positive operating cash flow impacts from reduced operating expenses, reduced inventory levels, and specific steps taken to improve overall working capital. In addition, in the fourth quarter of 2012, we extended our private label credit card agreement and received a signing bonus and an advance of our 2013 gain share totaling $75 million in cash. Additionally, cash flows from operating activities also included construction allowances from landlords of $7 million, which funded a portion of our capital

expenditures in investing activities.

Investing Activities

In 2014, investing activities was a cash outflow of $142 million compared to an outflow of $789 million for 2013. The decrease in the cash outflow from investing activities was primarily a result of decreased capital expenditures and an increase in proceeds from the sale of operating assets.

For 2014, capital expenditures were $252 million. At the end of the year, we also had an additional $12 million of accrued capital expenditures, which will be paid in subsequent periods. The capital expenditures for 2014 related primarily to the opening of 46 Sephora inside JCPenney stores, the opening of a new department store in the third quarter of 2014, investments in information technology in both our home office and stores and investments in our store environment. We received construction allowances from landlords of $8 million in 2014, 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.

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During 2014, we sold several operating and non-operating assets for total net proceeds of $105 million consisting primarily of 11 properties used in our former auto center operations, six department store locations (current and former) and two parcels of undeveloped land.

In 2013, investing activities was a cash outflow of $789 million compared to an outflow of $293 million for 2012. The increase in the cash outflow from investing activities was primarily a result of increased capital expenditures and a decrease in proceeds from the sale or redemption of non-operating and operating assets.
For 2013, capital expenditures were $951 million. At the end of the year, we also had an additional $25 million of accrued capital expenditures, which were paid in 2014. The capital expenditures for 2013 related primarily to the opening of the women's and children's Joe Fresh® attractions in nearly 700 of our department stores, the opening of Disney® and giggleBaby™ in approximately 560 stores, extensive renovations in our home department in approximately 500 of our department stores and the opening of 60 Sephora inside JCPenney stores. Additionally, we received construction allowances from landlords of $6 million in 2013.
During 2013, we sold several non-operating assets for total net proceeds of $143 million consisting primarily of our investments in four real estate joint ventures, our remaining Simon REIT units, ten properties used in our former auto center operations and a leasehold interest in a former department store location.

In 2012, capital expenditures were $810 million. Capital expenditures in 2012 included furniture and fixtures relating to shop concepts for The Original Arizona Jean Co., Levi's, jcp, Liz Claiborne and Izod. During the year, we also opened 78 Sephora inside JCPenney stores and nine new department stores. Additionally, we received construction allowances from landlords of $7 million in 2012.

In 2012, we received net proceeds of $526 million from the sale or redemption of non-operating assets including REIT shares or units, leveraged lease assets, investments in real estate joint ventures and a building used in our former drugstore operations.

The following provides a breakdown of capital expenditures:

($ in millions)	2014	2013	2012
Store renewals and updates	$152	$875	$617
Capitalized software	39	29	65
New and relocated stores	30	10	63
Technology and other	31	37	65
Total	$252	$951	$810

We expect our investment in capital expenditures for 2015 to be approximately $250 million, net of construction allowances from landlords, which will relate primarily to our store environment, investments in information technology and the continued roll-out of 25 new Sephora inside JCPenney locations. Our plan is to fund these expenditures with cash flow from operations and existing cash and cash equivalents.

Financing Activities
In 2014, cash flows from financing activities were an outflow of $294 million compared to an inflow of $3,188 million for the same period last year.

During the third quarter of 2014, we closed on our offering of $400 million aggregate principal amount of 2019 Notes and used the majority of the $393 million of proceeds from the offering, net of underwriting discounts, to pay $362 million for the tender consideration and related transaction fees and expenses for our contemporaneous cash 2014 Tender Offers to purchase approximately $327 million aggregate principal amount of our outstanding 2015 Notes, 2016 Notes and 2017 Notes. Subsequent to the completion of the 2014 Tender Offers, we used approximately $64 million of available cash to effect a legal defeasance of the remaining outstanding principal amount of $60 million on

our 2015 Notes by depositing funds with the Trustee for the 2015 Notes sufficient to make all payments of interest and principal on the outstanding Notes to October 15, 2015, the stated maturity of the 2015 Notes. These transactions resulted in a loss on extinguishment of debt of $34 million which includes the premium paid over face value of the Securities of $29 million, $4 million for the portion of the deposited funds for future interest payments on the 2015 Notes and reacquisition costs of $1 million.

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During the second quarter of 2014, in conjunction with entering into our 2014 Credit Facility, we used the $500 million of proceeds from the 2014 Term Loan, in addition to $150 million of cash on hand, to pay down the $650 million cash borrowings that were outstanding under the previous revolving credit facility. In addition, we incurred $60 million of financing costs relating to the 2014 Credit Facility. Through 2014, we repaid $26 million on our capital leases and note payable, $23 million on our 2013 Term Loan and $2 million on our 2014 Term Loan.

In 2013, cash flows from financing activities were an inflow of $3,188 million compared to an outflow of $274 million for the same period last year. During the third quarter of 2013, we issued 84 million shares of common stock with a par value of $0.50 per share for net proceeds of $786 million. During the second quarter of 2013, we received net proceeds of $2.18 billion from our senior secured term loan facility and completed the cash tender offer and consent solicitation with respect to our outstanding 7.125% Debentures due 2023 for $355 million. During the first quarter of 2013, we borrowed $850 million under our revolving credit facility of which $200 million was repaid during the third quarter of 2013.

In 2012, cash flows from financing activities were an outflow of $274 million. On August 1, 2012, we repaid at maturity $230 million principal amount of 9% Notes Due 2012. Additionally, we made capital lease, note payable and financing payments totaling $24 million. As authorized by the Board, we paid quarterly dividends of $0.20 per share during the first half of 2012 for dividends declared during the fourth quarter of 2011 and the first quarter of 2012. On May 15, 2012, we announced that we had discontinued the quarterly $0.20 per share dividend.

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. During 2014, we completed several transactions to further enhance our liquidity. During the second quarter of 2014, we closed on our 2014 Credit Facility which extends the maturity of the previous credit facility several years and further enhances our liquidity position, particularly during periods of peak working capital needs, by adding up to $500 million of additional liquidity. During the third quarter of 2014, through the 2019 Notes offering, the 2014 Tender Offers and the defeasance of our 2015 Notes, we were able to address our near-term debt maturities, with our next debt maturity occurring in August 2016 for $78 million. For 2015, 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.

2014 Credit Facility

On June 20, 2014, J. C. Penney Company, Inc., JCP and Purchasing entered into the 2014 Credit Facility, comprised of the Revolving Facility and the 2014 Term Loan. The 2014 Credit Facility, which matures on June 20, 2019, replaced the Company’s prior credit agreement entered into in February 2013 and contains a letter of credit sublimit of $750 million. Proceeds from the 2014 Term Loan, in addition to $150 million of cash on hand, were used to pay down the $650 million cash borrowings that were outstanding under the previous facility.

The 2014 Credit Facility is a senior asset-based credit facility and is secured by a perfected first-priority security interest in substantially all of our eligible credit card receivables, accounts receivable and inventory. The Revolving Facility is available for general corporate purposes, including the issuance of letters of credit. Pricing under the Revolving Facility is tiered based on our utilization under the line of credit. JCP’s obligations under the 2014 Credit Facility are guaranteed by J. C. Penney Company, Inc.

The borrowing base under the Revolving Facility, which is limited to a maximum of $1,850 million, is calculated as 85% of eligible accounts receivable, plus 90% of eligible credit card receivables, plus 90% of the liquidation value of our inventory, net of certain reserves. Letters of credit reduce the amount available to borrow by their face value. In

addition, the maximum availability is limited by a minimum excess availability threshold which is the greater of 10% of the borrowing base or $150 million.

As of the end of 2014, we had $498 million outstanding on the 2014 Term Loan and no borrowings outstanding under the Revolving Facility. The 2014 Term Loan bears interest at a rate of LIBOR plus 4.0% and requires quarterly repayments in a principal amount equal to $1.25 million during the five-year term beginning October 1, 2014. As of the end of 2014, we had $397 million in standby and import letters of credit outstanding under the Revolving Facility, the majority of which were standby letters of credit that support our merchandise initiatives and workers' compensation. None of the standby or import letters of credit have been drawn on. The applicable rates for standby and import letters of credit were 2.75% and 1.375%, respectively, while the commitment fee was 0.375% for the unused portion of the Revolving Facility. As of the end of 2014,

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based on our borrowing base, we had $923 million available for future borrowing, of which $773 million was accessible due to the minimum excess availability threshold.

Credit Ratings

Our credit ratings and outlook as of March 16, 2015 were as follows: