J C PENNEY CO INC
Form 10-Q
September 08, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)

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

For the quarterly period ended August 2, 2014
or

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

For the transition period from to
Commission File Number: 1-15274

J. C. PENNEY COMPANY, INC.
(Exact name of registrant as specified in its charter)

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

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

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 ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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 ¨ Non-accelerated filer ¨ (Do not check if a smaller reporting company) 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 ¨ No x

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. 304,836,982 shares of Common Stock of 50 cents par value, as of September 5, 2014.

J. C. PENNEY COMPANY, INC.
FORM 10-Q
For the Quarterly Period Ended August 2, 2014
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Part I. Financial Information
Item 1. Unaudited Interim Consolidated Financial Statements

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

(In millions, except per share data)	Three Months Ended August 2, 2014	Three Months Ended August 3, 2013	Six Months Ended August 2, 2014	Six Months Ended August 3, 2013
Total net sales	$2,799	$2,663	$5,600	$5,298
Cost of goods sold	1,791	1,876	3,666	3,699
Gross margin	1,008	787	1,934	1,599
Operating expenses/(income):				
Selling, general and administrative (SG&A)	964	1,026	1,973	2,104
Pension	2	34	3	68
Depreciation and amortization	160	143	318	279
Real estate and other, net	(53)	(68)	(70)	(90)
Restructuring and management transition	5	47	27	119
Total operating expenses	1,078	1,182	2,251	2,480
Operating income/(loss)	(70)	(395)	(317)	(881)
Loss on extinguishment of debt	—	114	—	114
Net interest expense	106	95	203	156
Income/(loss) before income taxes	(176)	(604)	(520)	(1,151)
Income tax expense/(benefit)	(4)	(18)	4	(217)
Net income/(loss)	$(172)	$(586)	$(524)	$(934)
Earnings/(loss) per share:				
Basic	$(0.56)	$(2.66)	$(1.72)	$(4.24)
Diluted	$(0.56)	$(2.66)	$(1.72)	$(4.24)
Weighted average shares – basic	305.2	220.6	305.1	220.2
Weighted average shares – diluted	305.2	220.6	305.1	220.2

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

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

($ in millions)	Three Months Ended August 2, 2014	Three Months Ended August 3, 2013	Six Months Ended August 2, 2014	Six Months Ended August 3, 2013
Net income/(loss)	$(172)	$(586)	$(524)	$(934)
Other comprehensive income/(loss), net of tax:				
Real estate investment trusts (REITs)				
Unrealized gain/(loss)	—	(3)	—	—
Retirement benefit plans				
Reclassification for amortization of net actuarial (gain)/loss	9	27	20	55
Reclassification for amortization of prior service (credit)/cost	1	—	—	(1)
Total other comprehensive income/(loss), net of tax	10	24	20	54
Total comprehensive income/(loss), net of tax	$(162)	$(562)	$(504)	$(880)

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

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

(In millions, except per share data)	August 2, 2014 (Unaudited)	August 3, 2013 (Unaudited)	February 1, 2014
Assets			
Current assets:			
Cash in banks and in transit	$189	$198	$113
Cash short-term investments	847	1,337	1,402
Cash and cash equivalents	1,036	1,535	1,515
Merchandise inventory	2,848	3,155	2,935
Deferred taxes	182	115	193
Prepaid expenses and other	207	209	190
Total current assets	4,273	5,014	4,833
Property and equipment (net of accumulated depreciation of $3,485, $3,067 and $3,315)	5,415	5,820	5,619
Prepaid pension	701	22	663
Other assets	723	798	686
Total Assets	$11,112	$11,654	$11,801
Liabilities and Stockholders' Equity			
Current liabilities:			
Merchandise accounts payable	$984	$1,276	$948
Other accounts payable and accrued expenses	1,176	1,350	1,198
Short-term borrowings	—	850	650
Current portion of capital leases and note payable	30	27	27
Current maturities of long-term debt	28	23	23
Total current liabilities	2,218	3,526	2,846
Long-term capital leases and note payable	44	71	62
Long-term debt	5,323	4,850	4,839
Deferred taxes	364	242	335
Other liabilities	563	645	632
Total Liabilities	8,512	9,334	8,714
Stockholders' Equity			
Common stock[(1)]	152	110	152
Additional paid-in capital	4,588	3,828	4,571
Reinvested earnings/(accumulated deficit)	(1,532)	(554)	(1,008)
Accumulated other comprehensive income/(loss)	(608)	(1,064)	(628)
Total Stockholders' Equity	2,600	2,320	3,087
Total Liabilities and Stockholders' Equity	$11,112	$11,654	$11,801

(1) 1,250 million shares of common stock are authorized with a par value of $0.50 per share. The total shares issued and outstanding were 304.8 million, 220.4 million and 304.6 million as of August 2, 2014, August 3, 2013 and February 1, 2014, respectively.

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

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

($ in millions)	Three Months Ended August 2, 2014	Three Months Ended August 3, 2013	Six Months Ended August 2, 2014	Six Months Ended August 3, 2013
Cash flows from operating activities				
Net income/(loss)	$(172)	$(586)	$(524)	$(934)
Adjustments to reconcile net income/(loss) to net cash provided by/(used in) operating activities:				
Restructuring and management transition	1	24	3	61
Asset impairments and other charges	2	7	4	9
Net gain on sale of non-operating assets	(9)	(62)	(21)	(62)
Net gain on sale of operating assets	—	(2)	(1)	(18)
Loss on extinguishment of debt	—	114	—	114
Depreciation and amortization	160	143	318	279
Benefit plans	(4)	24	(13)	41
Stock-based compensation	9	11	16	16
Deferred taxes	(14)	(25)	(19)	(189)
Change in cash from:				
Inventory	(13)	(357)	87	(814)
Prepaid expenses and other assets	8	(9)	(19)	41
Merchandise accounts payable	143	29	36	114
Current income taxes	(6)	5	4	60
Accrued expenses and other	32	(24)	(5)	(178)
Net cash provided by/(used in) operating activities	137	(708)	(134)	(1,460)
Cash flows from investing activities				
Capital expenditures	(61)	(439)	(141)	(653)
Net proceeds from sale of non-operating assets	11	55	26	55
Net proceeds from sale of operating assets	—	1	2	19
Joint venture return of investment	8	—	8	—
Net cash provided by/(used in) investing activities	(42)	(383)	(105)	(579)
Cash flows from financing activities				
Proceeds from short-term borrowings	—	—	—	850
Payment on short-term borrowings	(650)	—	(650)	—
Net proceeds from issuance of long-term debt	500	2,180	500	2,180
Premium on early retirement of debt	—	(110)	—	(110)
Payments of capital leases and note payable	(13)	(14)	(18)	(19)
Payments of long-term debt	(6)	(245)	(11)	(245)
Financing costs	(60)	(4)	(60)	(12)
Proceeds from stock options exercised	—	2	—	7
Tax withholding payments for vested restricted stock	—	(4)	(1)	(7)
Net cash provided by/(used in) financing activities	(229)	1,805	(240)	2,644
Net increase/(decrease) in cash and cash equivalents	(134)	714	(479)	605
Cash and cash equivalents at beginning of period	1,170	821	1,515	930
Cash and cash equivalents at end of period	$1,036	$1,535	$1,036	$1,535
Supplemental cash flow information				
Income taxes received/(paid), net	(16)	(2)	(19)	88
Interest received/(paid), net	(57)	(152)	(183)	(236)

Supplemental non-cash investing and financing activity				
Property contributed to joint venture	—	—	30	—
Increase/(decrease) in other accounts payable related to purchases of property and equipment	(6)	(178)	(5)	102
Financing costs withheld from proceeds of long-term debt	—	70	—	70

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

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

1. Basis of Presentation and Consolidation

Basis of Presentation

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

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

These unaudited Interim Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and in accordance with the rules and regulations of the Securities and Exchange Commission (SEC). The accompanying unaudited Interim Consolidated Financial Statements, in our opinion, include all material adjustments necessary for a fair presentation and should be read in conjunction with the audited Consolidated Financial Statements and notes thereto in our Annual Report on Form 10-K for the fiscal year ended February 1, 2014 (2013 Form 10-K). We follow substantially the same accounting policies to prepare quarterly financial statements as are followed in preparing annual financial statements. A description of such significant accounting policies is included in the 2013 Form 10-K. The February 1, 2014 financial information was derived from the audited Consolidated Financial Statements, with related footnotes, included in the 2013 Form 10-K. Because of the seasonal nature of the retail business, operating results for interim periods are not necessarily indicative of the results that may be expected for the full year.

Fiscal Year

Our fiscal year ends on the Saturday closest to January 31. As used herein, "three months ended August 2, 2014" and "three months ended August 3, 2013" refer to the 13-week periods ended August 2, 2014 and August 3, 2013, respectively. "Six months ended August 2, 2014" or "2014 first half," and "six months ended August 3, 2013," or "2013 first half," refer to the 26-week periods ended August 2, 2014 and August 3, 2013, respectively. Fiscal years 2014 and 2013 contain 52 weeks.

Basis of Consolidation

All significant intercompany transactions and balances have been eliminated in consolidation. Certain reclassifications were made to prior period amounts to conform to the current period presentation. None of the reclassifications affected our net income/(loss) in any period.

Use of Estimates and Assumptions

The preparation of unaudited Interim Consolidated Financial Statements, in conformity with GAAP, requires us to make assumptions and use estimates that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates relate to: inventory valuation under the retail method, specifically permanent reductions to retail prices (markdowns), permanent devaluation of inventory (markdown accruals) and adjustments for shortages (shrinkage); valuation of long-lived assets and indefinite-lived intangible assets for impairments; reserves for closed stores, workers' compensation and general liability (insurance), environmental contingencies, income taxes and litigation; and pension and other postretirement benefits accounting. Such estimates and assumptions are subject to inherent uncertainties, which may result in actual amounts differing from reported amounts.

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2. Earnings/(Loss) per Share

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

(in millions, except per share data)	Three Months Ended August 2, 2014	Three Months Ended August 3, 2013	Six Months Ended August 2, 2014	Six Months Ended August 3, 2013
Earnings/(loss)				
Net income/(loss)	$(172)	$(586)	$(524)	$(934)
Shares				
Weighted average common shares outstanding (basic shares)	305.2	220.6	305.1	220.2
Adjustment for assumed dilution:				
Stock options, restricted stock awards and warrant	—	—	—	—
Weighted average shares assuming dilution (diluted shares)	305.2	220.6	305.1	220.2
EPS				
Basic	$(0.56)	$(2.66)	$(1.72)	$(4.24)
Diluted	$(0.56)	$(2.66)	$(1.72)	$(4.24)

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

(Shares in millions)	Three Months Ended August 2, 2014	Three Months Ended August 3, 2013	Six Months Ended August 2, 2014	Six Months Ended August 3, 2013
Stock options, restricted stock awards and warrant	26.7	25.0	25.4	25.0

3. Credit Facility

On June 20, 2014, J. C. Penney Company, Inc., JCP and J. C. Penney Purchasing Corporation (Purchasing) entered into a $2,350 million asset-based senior 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). 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 an asset-based senior 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, allows us to borrow up to 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 the second quarter of 2014, we had $500 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 the second quarter of 2014, we had $497 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

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Revolving Facility. As of the end of the second quarter of 2014, based on our June 2014 borrowing base, we had $1,050 million available for future borrowing, of which $895 million was accessible due to the minimum excess availability threshold.

4. Fair Value Disclosures

In determining fair value, the accounting standards establish a three-level hierarchy for inputs used in measuring fair value, as follows:

- Level 1 — Quoted prices in active markets for identical assets or liabilities.
- Level 2 — Significant observable inputs other than quoted prices in active markets for similar assets and liabilities, such as quoted prices for identical or similar assets or liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3 — Significant unobservable inputs reflecting our own assumptions, consistent with reasonably available assumptions made by other market participants.

REIT Assets Measured on a Recurring Basis

During 2013, we sold our remaining investments in public REIT assets. The market value of our investment in public REIT assets were accounted for as available-for-sale securities and were carried at fair value on an ongoing basis in Other assets in the unaudited Interim Consolidated Balance Sheets. We determined the fair value of our investments in REITs using quoted market prices. There were no transfers in or out of any levels during any period presented. Our REIT assets measured at fair value were as follows:

($ in millions)	Cost Basis	REIT Assets at Fair Value Quoted Prices in Active Markets of Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
August 2, 2014	$—	$—	$—	$—
August 3, 2013	7	33	—	—
February 1, 2014	—	—	—	—

Other Financial Instruments

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

($ in millions)	August 2, 2014 Carrying Amount	 Fair Value	August 3, 2013 Carrying Amount	 Fair Value	February 1, 2014 Carrying Amount	 Fair Value
Long-term debt, including current maturities	$5,351	$5,072	$4,873	$4,272	$4,862	$4,209
Cost investment	—	—	36	—	—	—

The fair value of long-term debt was estimated by obtaining quotes from brokers or was based on current rates offered for similar debt. The cost investment was for equity securities that were not registered and freely tradable shares and their fair values were not readily determinable; however, we believe the carrying value approximated or was less than the fair value.

As of August 2, 2014, August 3, 2013 and February 1, 2014, the fair values of cash and cash equivalents, accounts payable and short-term borrowings approximated their carrying values due to the short-term nature of these instruments. In addition, the fair values of capital lease commitments and the note payable approximated their carrying values. These items have been excluded from the table above.

Concentrations of Credit Risk

We have no significant concentrations of credit risk.

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5. Stockholders’ Equity

The following table shows the change in the components of stockholders’ equity for the six months ended August 2, 2014:

(in millions)	Number of Common Shares	Common Stock	Additional Paid-in Capital	Reinvested Earnings/ (Accumulated Deficit)	Accumulated Other Comprehensive Income/(Loss)	Total Stockholders’ Equity
February 1, 2014	304.6	$152	$4,571	$(1,008)	$(628)	$3,087
Net income/(loss)	—	—	—	(524)	—	(524)
Other comprehensive income/(loss)	—	—	—	—	20	20
Stock-based compensation	0.2	—	17	—	—	17
August 2, 2014	304.8	$152	$4,588	$(1,532)	$(608)	$2,600

Comprehensive Income

The tax effects allocated to each component of other comprehensive income/(loss) are as follows:

	Three Months Ended					
	August 2, 2014			August 3, 2013		
($ in millions)	Gross Amount	Income Tax (Expense)/ Benefit	Net Amount	Gross Amount	Income Tax (Expense)/ Benefit	Net Amount
REITs						
Unrealized gain/(loss)	$—	$—	$—	$(4)	$1	$(3)
Retirement benefit plans						
Reclassification for amortization of net actuarial (gain)/loss	16	(7)	9	44	(17)	27
Reclassification for amortization of prior service (credit)/cost	1	—	1	—	—	—
Total	$17	$(7)	$10	$40	$(16)	$24

	Six Months Ended					
	August 2, 2014			August 3, 2013		
($ in millions)	Gross Amount	Income Tax (Expense)/ Benefit	Net Amount	Gross Amount	Income Tax (Expense)/ Benefit	Net Amount
Retirement benefit plans						
Reclassification for amortization of net actuarial (gain)/loss	$33	$(13)	$20	$88	$(33)	$55
Reclassification for amortization of prior service (credit)/cost	—	—	—	(1)	—	(1)
Total	$33	$(13)	$20	$87	$(33)	$54

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The following table shows the changes in accumulated other comprehensive income/(loss) balances for the six months ended August 2, 2014:

($ in millions)	Net Actuarial Gain/(Loss)	Prior Service Credit/(Cost)	Accumulated Other Comprehensive Income/(Loss)
February 1, 2014	$(609)	$(19)	$(628)
Other comprehensive income/(loss) before reclassifications	—	—	—
Amounts reclassified from accumulated other comprehensive income	20	—	20
Net current-period other comprehensive income	20	—	20
August 2, 2014	$(589)	$(19)	$(608)

Reclassifications out of accumulated other comprehensive income/(loss) are as follows:

	Amount Reclassified from Accumulated Other Comprehensive Income/(Loss)				
	Three Months Ended		Six Months Ended		
($ in millions)	August 2, 2014	August 3, 2013	August 2, 2014	August 3, 2013	Line Item in the Unaudited Interim Consolidated Statements of Operations
Amortization of retirement benefit plans					
Actuarial loss/(gain)(1)	$16	$44	$33	$88	Pension
Prior service cost/(credit)(1)	3	2	4	3	Pension
Prior service cost/(credit)(1)	(2)	(2)	(4)	(4)	SG&A
Tax (expense)/benefit	(7)	(17)	(13)	(33)	Income tax expense/(benefit)
Total, net of tax	10	27	20	54	
Total reclassifications	$10	$27	$20	$54	

(1) These accumulated other comprehensive components are included in the computation of net periodic benefits expense/(income). See Note 7 for additional details.

6. Stock-Based Compensation

We grant stock-based compensation awards to employees and non-employee directors under our equity compensation plan. On May 16, 2014, our stockholders approved the J. C. Penney Company, Inc. 2014 Long-Term Incentive Plan (2014 Plan), which has a fungible share design in which each stock option will count as one share issued and each stock award will count as two shares issued. The 2014 Plan reserved 16 million shares or 32 million options for future grants and will terminate on May 31, 2019. In addition, shares underlying any outstanding stock award or stock option grant canceled prior to vesting or exercise become available for use under the 2014 Plan. On May 21, 2014, the Company also approved an equity inducement award plan (2014 Equity Inducement Plan) which reserved 750,000 restricted stock units to grant to a certain officer of the Company in connection with his employment. Our prior 2012 Long-Term Incentive Plan (2012 Plan) terminated on May 16, 2014, except for outstanding awards, and all subsequent awards have been granted under the 2014 Plan or the 2014 Equity Inducement Plan. Under the terms of the 2014 Plan, all grants made after January 31, 2014 reduce the shares available for grant under the 2014 Plan. As of August 2, 2014, a maximum of 25.2 million shares of stock were available for future grant under the 2014 Plan. Stock-based compensation expense for the three months ended August 2, 2014 and August 3, 2013 was $11 million and $18 million, respectively. Stock-based compensation expense for the six months ended August 2, 2014 and August 3, 2013 was $21 million and $32 million, respectively. During the first half of 2014, the Company granted the following stock-based compensation awards:

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	Restricted Stock Units (RSU)		Stock Options		
Grant Date	Time-based	Performance-based	Performance-based	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value
March 3, 2014	25,000	—	—	$—	$7.96
March 20, 2014	2,328,000	329,000	2,322,000	8.36	6.09
March 27, 2014	84,000	—	185,000	8.97	5.59
May 20, 2014[(1)]	306,000	—	—	—	8.93
Total	2,743,000	329,000	2,507,000	8.41	6.23

(1) Includes approximately 224,000 RSUs that were granted under the 2014 Equity Inducement Plan.

Performance-based stock options and awards that ultimately vest are dependent on market performance targets measured by either the performance of the Company's common stock (market condition) or on the achievement of a 2014 internal profitability target (performance condition).

In addition to the grants above, on March 20, 2014, we granted approximately 2.3 million phantom units as part of our management incentive compensation plan, which are similar to RSUs in that the number of units granted was based on the price of our stock, but the units will be settled in cash based on the value of our stock on the vesting date, limited to $16.72 per phantom unit. The fair value of the awards is remeasured at each reporting period and was $9.63 per share as of August 2, 2014. Compensation expense, which is variable, is recognized over the vesting period with a corresponding liability, which is recorded in Other accounts payable and accrued expenses in our unaudited Interim Consolidated Balance Sheets. We also granted approximately 157,000 fully vested RSUs to directors on May 21, 2014 with a fair value of $8.60 per RSU award.

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7. Retirement Benefit Plans

The components of net periodic benefit expense/(income) for our non-contributory qualified defined benefit pension plan (Primary Pension Plan), non-contributory supplemental pension plans and contributory postretirement health and welfare plan were as follows:

($ in millions)	Three Months Ended August 2, 2014	Three Months Ended August 3, 2013	Six Months Ended August 2, 2014	Six Months Ended August 3, 2013
Primary Pension Plan				
Service cost	$16	$19	$31	$39
Interest cost	52	51	105	102
Expected return on plan assets	(87)	(85)	(174)	(170)
Amortization of actuarial loss/(gain)	12	38	25	76
Amortization of prior service cost/(credit)	3	2	4	3
Net periodic benefit expense/(income)	$(4)	$25	$(9)	$50
Supplemental Pension Plans				
Service cost	$—	$—	$—	$—
Interest cost	2	3	4	6
Amortization of actuarial loss/(gain)	4	6	8	12
Amortization of prior service cost/(credit)	—	—	—	—
Net periodic benefit expense/(income)	$6	$9	$12	$18
Primary and Supplemental Pension Plans Total				
Service cost	$16	$19	$31	$39
Interest cost	54	54	109	108
Expected return on plan assets	(87)	(85)	(174)	(170)
Amortization of actuarial loss/(gain)	16	44	33	88
Amortization of prior service cost/(credit)	3	2	4	3
Net periodic benefit expense/(income)	$2	$34	$3	$68
Postretirement Health and Welfare Plan				
Service cost	$—	$—		