

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

(Mark
One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended January 30, 2016

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____ to _____

Commission File Number: 001-15274

JCPenney

J. C. PENNEY COMPANY, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

26-0037077

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

6501 Legacy Drive, Plano, Texas 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

Common Stock of 50 cents par value
Preferred Stock Purchase Rights

Name of each exchange on which registered

New York Stock Exchange
New York Stock Exchange

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

None

(Title of class)

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

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

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

Indicate by check mark whether the registrant has submitted electronically 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 ☒ No ☐

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

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 ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

(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 ☐ No ☒

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter (August 1, 2015). \$2,512,275,429

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.
306,624,828 shares of Common Stock of 50 cents par value, as of March 11, 2016.

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. 2016 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 1,021 department stores in 49 states and Puerto Rico as of January 30, 2016. 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 2015 ended on January 30, 2016; fiscal year 2014 ended on January 31, 2015; and fiscal year 2013 ended on February 1, 2014. Each consisted of 52 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, our website offers virtually the same mix of merchandise as our in store assortment along with other extended categories that are not offered in store, and our department stores generally accept returns from sales made in stores and via our website. We fulfill online customer purchases by direct shipment to the customer from our distribution facilities and stores or from our suppliers' warehouses and by in store customer pick up. We 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 2015, our merchandise mix of total net sales over the last three years was as follows:

	2015	2014	2013
Women’s apparel	25%	26%	26%
Men’s apparel and accessories	22%	22%	22%
Home	12%	12%	11%
Women’s accessories, including Sephora	12%	11%	10%
Children’s apparel	10%	10%	11%
Footwear and handbags	8%	8%	9%
Jewelry	6%	6%	6%
Services and other	5%	5%	5%
	100%	100%	100%

Operating Strategy

We have developed our strategic framework to focus on the following three pillars:

- private brands;
- omnichannel; and
- revenue per customer.

We believe these three pillars provide the foundation to increase loyalty with our customers and enable the organization to simplify its focus by ensuring that resources and capital investments are effectively allocated to drive these priorities.

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Our first priority is **private brands**. We plan to leverage our sourcing and private brand infrastructure to increase our production of private brands with style, quality and value. With an established global network of sourcing offices, along with a team of in-house designers, we plan to grow private brand penetration and increase our profitability.

Our second priority is to become a world-class **omnichannel** retailer. We have a rich heritage of being a catalog retailer and have much of our omnichannel infrastructure already in place. We have three large, strategically located dot-com distribution centers with approximately five million square feet of space with plans to effectively digitize these centers. Our objective is to create a seamless connection between our digital and brick-and-mortar operations through initiatives such as buy-online-pick-up-in-store same day (BOPIS).

Our final strategic priority is increasing **revenue per customer**. We have approximately the same number of active customers as we did in 2011; however, there is an increased opportunity to grow shopping frequency and the amount these customers spend on every transaction. We plan to address this opportunity by enhancing our cross-merchandising appeal with initiatives to upgrade each store's center core, which is the area of the store that includes fashion and fine jewelry, handbags, footwear, sunglasses, and accessories, along with accelerating the growth of our Sephora inside JCPenney locations.

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.

Trademarks

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

Website Availability

We maintain an Internet website at www.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 2,300 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 10 foreign countries as of January 30, 2016.

Employment

The Company and its consolidated subsidiaries employed approximately 105,000 full-time and part-time employees as of January 30, 2016.

Environmental Matters

Environmental protection requirements did not have a material effect upon our operations during 2015. 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 30, 2016, we estimated our total potential environmental liabilities to range from \$20 million to \$25 million and recorded our best estimate of \$23 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.

Executive Officers of the Registrant

The following is a list, as of March 11, 2016, 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	Chairman of the Board	69
Marvin R. Ellison	Chief Executive Officer	51
Edward J. Record	Executive Vice President and Chief Financial Officer	47
Brynn L. Evanson	Executive Vice President, Human Resources	46
Janet M. Link	Executive Vice President, General Counsel	46
Therace M. Risch	Executive Vice President, Chief Information Officer	43
Andrew S. Drexler	Senior Vice President, Chief Accounting Officer and Controller	45

Mr. Ullman has served as Chairman of the Board of Directors since August 2015, and as a director of the Company and a director of JCP since 2013. He previously served as Chief Executive Officer of the Company from 2004 to 2011 and from 2013 to 2015 and as Chairman of the Board of Directors of the Company from 2004 to 2012. 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. (luxury retailer). From 1992 to 1995, he was Chairman of the Board and Chief Executive Officer of R. H. Macy & Company, Inc.

Mr. Ellison has served as Chief Executive Officer since August 2015, and as a director of the Company and a director of JCP since 2014. He previously served as President of the Company from 2014 to 2015. 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.

Mr. Record has served as Executive Vice President and Chief Financial Officer of the Company and as a director of JCP since 2014. Prior to joining the Company, he served in positions of increasing responsibility with Stage Stores, Inc. (apparel retailer), including Executive Vice President and Chief Operating Officer from 2010 to 2014, Chief Financial Officer from September 2007 to 2010 and Executive Vice President and Chief Administrative Officer from May 2007 to September 2007. Mr. Record also served as Senior Vice President of Finance of Kohl's Corporation from 2005 to 2007. Prior to that, he served with Belk, Inc. as Senior Vice President of Finance and Controller from April 2005 to October 2005 and Senior Vice President and Controller from 2002 to April 2005.

Ms. Evanson has served as Executive Vice President, Human Resources since 2013. Prior to that she served as Vice President, Compensation, Benefits and Talent Operations from 2010 to 2013 and Director of Compensation from 2009 to 2010. Prior to joining the Company, she worked at the Dayton Hudson Corporation 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 and moved to the Target stores division in 2000, ultimately serving as Director of Executive Compensation and Retirement Plans.

Ms. Link has served as Executive Vice President, General Counsel since May 2015. Prior to that, she served as interim General Counsel from March 2015 to May 2015 and as Vice President, Deputy General Counsel from September 2014 to March 2015. Prior to joining the Company, she served as Vice President, Deputy General Counsel of CC Media Holdings, Inc. (now known as iHeart Media Holdings, Inc.) and Clear Channel Outdoor Holdings, Inc. from 2013 to 2014 and as Vice President, Associate General Counsel - Litigation from 2010 to 2013. She also served as Interim General Counsel of Clear Channel Outdoor - Americas from 2010 to 2011. Ms. Link was a partner with Latham & Watkins LLP from 2005 to 2010 where she was the Vice-Chair of the Global Litigation Department.

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

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

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.

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

- customer response to our marketing and merchandise strategies;
- our ability to achieve profitable sales and to make adjustments in response to changing conditions;
- our ability to respond to competitive pressures in our industry;
- our ability to effectively manage inventory;
- the success of our omnichannel strategy;
- our ability to 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 an adequate and uninterrupted supply of merchandise from suppliers at expected levels and on acceptable terms;
- changes to the regulatory environment in which our business operates; and
- general economic conditions.

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

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

The retail industry is highly competitive, with few barriers to entry. We compete with many other local, regional and national retailers for customers, employees, locations, merchandise, services and other important aspects of our business. Those competitors include other department stores, discounters, home furnishing stores, specialty retailers, wholesale clubs, direct-to-consumer businesses, including those on the Internet, and other forms of retail commerce. Some competitors are larger than JCPenney, and/or have greater financial resources available to them, and, as a result, may be able to devote greater resources to sourcing, promoting, selling their products, updating their store environment and updating their technology. Competition is

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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.

We may also seek to expand into new lines of business from time to time, such as offering large appliances for sale in our stores and online. There is no assurance that these efforts will be successful. Further, if we devote time and resources to new lines of business and those businesses are not as successful as we planned, then we risk damaging our overall business results. We also may not be able to develop new lines of business in a manner that improves our overall business and operating results and may therefore be forced to close the new lines of business, which may damage our reputation and negatively impact our operating results.

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

Maintaining and continually enhancing the value of our Company and our private brand merchandise is important to the success of our business. The value of our private brands is based in large part on the degree to which customers perceive and react to them. The value of our private brands could diminish significantly due to a number of factors, including customer perception that we have acted in an irresponsible manner in sourcing our private brand merchandise, adverse publicity about our private brand merchandise, our failure to maintain the quality of our private brand products, 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 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. Negative media reports regarding the Company or the retail industry in general could also have an adverse impact on our ability to attract, retain and motivate our employees. If we are unable to retain, attract and motivate talented employees with the appropriate skill sets, we may not achieve our objectives and our results of operations could be adversely impacted. Our ability to meet our changing labor needs while controlling our costs is also subject to external factors such as unemployment levels, competing wages, potential union organizing efforts and increased government regulation. An inability to provide wages and/or benefits that are competitive within the markets in which we operate could adversely affect our ability to retain and attract employees. In addition, the loss of one or more of our key personnel or the inability to effectively identify a suitable successor to a key role in our senior management could have a material adverse effect on our business.

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

One of the pillars of our strategic framework is to deliver a superior omnichannel shopping experience for our customers through the integration of our store and digital shopping channels. Omnichannel retailing is rapidly evolving and we must anticipate and meet changing customer expectations. Our omnichannel initiatives include our ship-from-store and pickup-in-store programs and expansion of our SKU count online. In addition, we continue to explore ways to enhance our customers' omnichannel shopping experience. These initiatives involve significant investments in IT systems and significant operational changes. In addition, our competitors are also investing in omnichannel initiatives, some of which may be more successful than our initiatives. If the implementation of our omnichannel initiatives is not successful or does not meet customer expectations, or we do not realize a return on our omnichannel investments, our reputation and operating results may be adversely affected.

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

We sell merchandise over the Internet through our website, www.jcpenney.com, and through mobile applications for smart phones and tablets. Our Internet operations are subject to numerous risks, including rapid technological change and the implementation of new systems and platforms; liability for online and mobile content; violations of state or federal laws, including those relating to online and mobile privacy and intellectual property rights; credit card fraud; problems associated with the operation and security of our website, mobile applications and related support systems; computer viruses; telecommunications failures; electronic break-ins and similar disruptions; and the allocation of inventory between our online operations and department stores. The failure of our website or mobile applications to perform as expected could result in disruptions and costs to our operations and make it more difficult for customers to purchase merchandise online. In addition, our inability to successfully develop and maintain the necessary technological interfaces for our customers to purchase merchandise through our website and mobile applications, including user friendly software applications for smart phones and tablets, could result in the loss of Internet sales and have an adverse impact on our results of operations.

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

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

We have implemented several 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.

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

We are in the process of insourcing certain business functions and may also need to continue to outsource other aspects of our business in the future in order to effectively manage our costs and stay competitive. We may also seek from time to time to relocate certain business functions to countries other than the United States to access highly skilled labor markets and further control costs. There is no assurance that these efforts will be successful. Further, these actions may cause disruptions that negatively impact our business. If we are ultimately unable to perform insourced functions better than, or at least as well as, our current third party providers, our operating results could be adversely impacted.

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

The credit rating agencies periodically review our capital structure and the quality and stability of our earnings. Any 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.

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

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

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

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

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

As of January 30, 2016, we have \$4.805 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. In addition, we are required to make prepayments of the real estate term loan credit facility with the proceeds of certain asset sales, insurance proceeds and excess cash flow, which 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.

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

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

- counterparty credit risk;
- the risk that the duration or amount of the hedge may not match the duration or amount of the related liability;
- the hedging transactions may be adjusted from time to time in accordance with accounting rules to reflect changes in fair values, downward adjustments or “mark-to-market losses,” which would affect our stockholders’ equity; and
- the risk that we may not be able to meet the terms and conditions of the hedging instruments, in which case we may be required to settle the instruments prior to maturity with cash payments that could significantly affect our liquidity.

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

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

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

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

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

legal, social and other factors that we cannot control. If the income or cash flow that the Company receives from our consumer credit card program agreement with Synchrony decreases, our operating results and cash flows could be adversely affected.

We are subject to customer payment-related risks that could increase operating costs, expose us to fraud or theft, subject us to potential liability and potentially disrupt our business.

We accept payments using a variety of methods, including cash, checks, credit and debit cards (including private label credit cards) and gift cards. Acceptance of these payment options subjects us to rules, regulations, contractual obligations and compliance requirements, including payment network rules and operating guidelines, data security standards and certification requirements, and rules governing electronic funds transfers. These requirements may change over time or be reinterpreted, making compliance more difficult or costly. The payment card industry set October 1, 2015 as the date on which liability shifted for certain debit and credit card transactions to retailers who are not able to accept EMV chip technology transactions. Implementation of the EMV chip technology and receipt of final certification is subject to the time availability of third-party service providers. As a result, we bear the chargeback risk for fraudulent transactions generated through EMV chip enabled cards before our implementation and certification of the EMV chip technology. Further, we may experience a decrease in transaction volume if we cannot process transactions for cardholders whose issuer has migrated entirely from magnetic strip to EMV chip enabled cards. Any prolonged inability to accept EMV chip technology transactions may subject us to increased risk of liability for fraudulent transactions and may adversely affect our business and operating results.

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 vendors must comply with our supplier legal compliance program and applicable laws, including consumer and product safety laws. Although we diversify our sourcing and production by country and supplier, the failure of a supplier to produce and deliver our goods on time, to meet our quality standards and adhere to our product safety requirements or to meet the requirements of our supplier compliance program or applicable laws, 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;

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- 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 limited to labor disputes involving work slowdowns, lockouts or strikes, could require us and/or our vendors to ship merchandise by air freight or to alternative ports in the United States. Shipping by air is significantly more expensive than shipping by ocean which could adversely affect our profitability. Similarly, shipping to alternative ports in the United States could result in increased lead times and transportation costs. Disruptions at ports through which we import our goods could also result in unanticipated inventory shortages, which could adversely impact our reputation and our results of operations.

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

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

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

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

Our profitability may be impacted by weather conditions.

Our merchandise assortments reflect assumptions regarding expected weather patterns and our profitability depends on our ability to timely deliver seasonally appropriate inventory. Unseasonable or unexpected weather conditions such as warm temperatures during the winter season or prolonged or extreme periods of warm or cold temperatures could render a portion of our inventory incompatible with consumer needs. Extreme weather or natural disasters could also severely hinder our ability to timely deliver seasonally appropriate merchandise, preclude customers from traveling to our stores, delay capital improvements or cause us to close stores. A reduction in the demand for or supply of our seasonal merchandise could have an adverse effect on our inventory levels, 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. Government intervention and activism and/or regulatory reform may result in substantial new regulations and disclosure obligations and/or changes in the interpretation of existing laws and regulations, which may lead to additional compliance costs as well as the diversion of our management's time and attention from strategic initiatives. If we fail to comply with applicable laws and regulations we could be subject to legal risk, including

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

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

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

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

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

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

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

Securities class action litigation has often been instituted against companies following periods of volatility in the overall market and in the market price of a company's securities. 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 stockholder derivative actions that were filed following our announcement of an issuance of common stock on September 26, 2013. 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 30, 2016. These NOL carryforwards (expiring in 2032 through 2035) 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 2.65% at January 30, 2016. To the extent that a company has a net unrealized built-in gain at the time of an ownership change, which is realized or deemed recognized during the five-year period following the ownership change, there is an increase in the annual limitation for each of the first five-years that is cumulative to the extent it is not all utilized in a year.

The Company has an ongoing study of the rolling three-year testing periods. Based upon the elections the Company has made and the information that has been filed with the Securities and Exchange Commission through January 30, 2016, the Company has not had a Section 382 ownership change through January 30, 2016.

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.

Item 2. Properties

At January 30, 2016, we operated 1,021 department stores throughout the continental United States, Alaska and Puerto Rico, of which 418 were owned, including 118 stores located on ground leases. The following table lists the number of stores operating by state as of January 30, 2016:

Alabama	20	Maine	6	Oklahoma	19
Alaska	1	Maryland	18	Oregon	13
Arizona	22	Massachusetts	10	Pennsylvania	35
Arkansas	16	Michigan	41	Rhode Island	2
California	80	Minnesota	25	South Carolina	16
Colorado	21	Mississippi	15	South Dakota	7
Connecticut	8	Missouri	26	Tennessee	25
Delaware	3	Montana	7	Texas	91
Florida	55	Nebraska	11	Utah	9
Georgia	27	Nevada	7	Vermont	4
Idaho	9	New Hampshire	9	Virginia	24
Illinois	37	New Jersey	14	Washington	22
Indiana	27	New Mexico	10	West Virginia	9
Iowa	15	New York	42	Wisconsin	14
Kansas	19	North Carolina	29	Wyoming	5
Kentucky	22	North Dakota	8	Puerto Rico	7
Louisiana	16	Ohio	43		
Total square feet	104.7 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.

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At January 30, 2016, our supply chain network operated 13 facilities with multiple types of distribution activities, including store merchandise distribution centers (stores), regional warehouses (regional), jcpenny.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	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
Total supply chain network			<u>15,623</u>

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

Not applicable.

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 11, 2016, was 24,791. In addition to common stock, we have authorized 25 million shares of preferred stock, of which no shares were issued and outstanding at January 30, 2016.

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 2015	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
Market price:								
High	\$	9.50	\$	9.39	\$	10.09	\$	9.34
Low	\$	7.01	\$	8.02	\$	7.21	\$	6.00
Close	\$	8.43	\$	8.24	\$	9.17	\$	7.26
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

Since May 2012, the Company has not paid a dividend. Under our 2013 senior secured term loan and 2014 senior secured asset-based credit facility, we are subject to restrictive covenants regarding our ability to pay cash dividends.

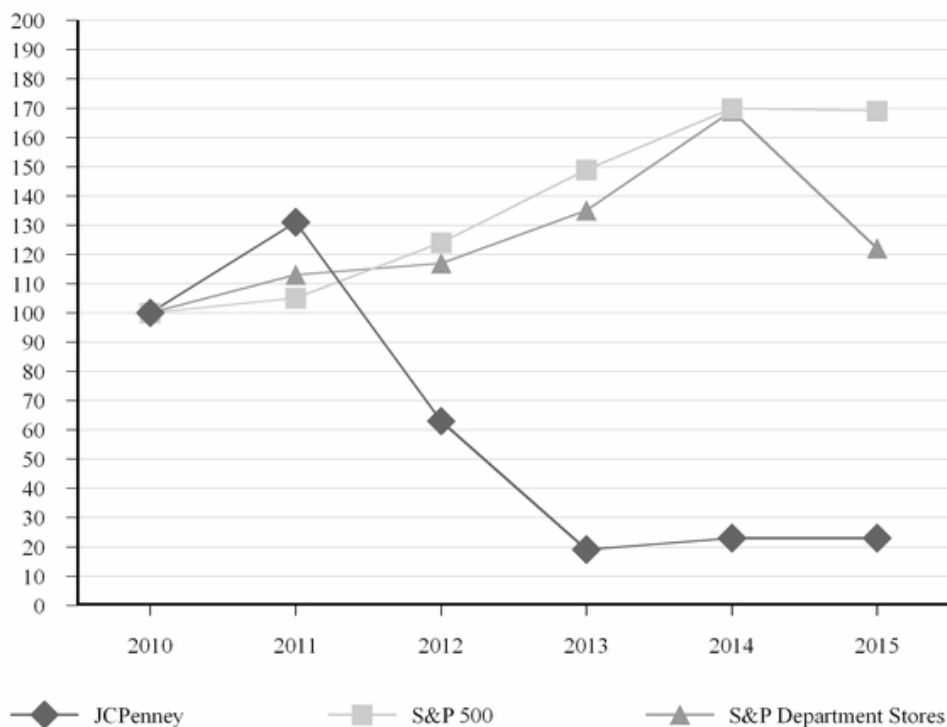
Additional information relating to the common stock and preferred stock is included in this Annual Report on Form 10-K in the Consolidated Statements of Stockholders' Equity and in Note 13 to the Consolidated Financial Statements.

Issuer Purchases of Securities

No repurchases of common stock were made during the fourth quarter of 2015 and no amounts are authorized for share repurchases as of January 30, 2016.

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 2010 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

	2010	2011	2012	2013	2014	2015
JCPenney	\$100	\$131	\$63	\$19	\$23	\$23
S&P 500	100	105	124	149	170	169
S&P Department Stores	100	113	117	135	169	122

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

Item 6. Selected Financial Data
Five-Year Financial Summary

(\$ in millions, except per share data)	2015	2014 ⁽¹⁾	2013 ⁽¹⁾	2012 ⁽¹⁾	2011 ⁽¹⁾
Results for the year					
Total net sales	\$ 12,625	\$ 12,257	\$ 11,859	\$ 12,985	\$ 17,260
Sales percent increase/(decrease):					
Total net sales	3.0 %	3.4 %	(8.7)% ⁽²⁾	(24.8)% ⁽²⁾	(2.8)%
Comparable store sales ⁽³⁾	4.5 %	4.4 %	(7.4)%	(25.1)%	0.3 %
Operating income/(loss)	(89)	(254)	(1,242)	(1,001)	(201)
As a percent of sales	(0.7)%	(2.1)%	(10.5)%	(7.7)%	(1.2)%
Net income/(loss) from continuing operations	(513)	(717)	(1,278)	(795)	(274)
Net income/(loss) from continuing operations before net interest expense, income tax (benefit)/expense and depreciation and amortization (EBITDA) (non-GAAP) ⁽⁴⁾	527	377	(641)	(458)	317
Adjusted EBITDA (non-GAAP) ⁽⁴⁾	715	280	(610)	(420)	1,042
Adjusted net income/(loss) (non-GAAP) from continuing operations ⁽⁴⁾	(315)	(778)	(1,405)	(780)	199
Per common share					
Earnings/(loss) per share from continuing operations, diluted	\$ (1.68)	\$ (2.35)	\$ (5.13)	\$ (3.63)	\$ (1.26)
Adjusted earnings/(loss) per share from continuing operations, diluted (non-GAAP) ⁽⁴⁾	\$ (1.03)	\$ (2.55)	\$ (5.64)	\$ (3.56)	\$ 0.90 ⁽⁵⁾
Dividends declared ⁽⁶⁾	—	—	—	0.20	0.80
Financial position and cash flow					
Total assets	\$ 9,442	\$ 10,309 ⁽⁸⁾	\$ 11,710 ⁽⁸⁾	\$ 9,761 ⁽⁸⁾	\$ 11,402 ⁽⁸⁾
Cash and cash equivalents	900	1,318	1,515	930	1,507
Total debt ⁽⁷⁾	4,805	5,321 ⁽⁸⁾	5,510 ⁽⁸⁾	2,962 ⁽⁸⁾	3,080 ⁽⁸⁾
Free cash flow (non-GAAP) ⁽⁴⁾	131	57	(2,746)	(906)	23

(1) Reflects the retrospective application of the change in our method of recognizing pension expense. See Note 3 of Notes to Consolidated Financial Statements for a discussion of the change and the impact of the change for the years 2014 and 2013. For 2012, the retrospective application of the change in recognizing pension expense increased net income/(loss) from continuing operations by \$190 million and earnings/(loss) per share from continuing operations, diluted by \$0.86. For 2011, the retrospective application of the change in recognizing pension expense decreased net income/(loss) from continuing operations by \$122 million and earnings/(loss) per share from continuing operations, diluted by \$0.56.

(2) 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.

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

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

(5) 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.

(6) We discontinued the quarterly \$0.20 per share dividend following the May 1, 2012 payment.

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

(8) Reflects the retrospective application of the change in our classification of debt issue costs. See Note 4 of Notes to Consolidated Financial Statements for a discussion of the change and the impact of the change for 2014. For 2013, the retrospective application of the change in our classification of debt issue costs reduced Total assets by and decreased Total debt by \$91 million. For 2012, the

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retrospective application of the change in our classification of debt issue costs reduced Total assets by and decreased Total debt by \$20 million. For 2011, the retrospective application of the change in our classification of debt issue costs reduced Total assets by and decreased Total debt by \$22 million.

Five-Year Operations Summary

	2015	2014	2013	2012	2011
Number of department stores:					
Beginning of year	1,062	1,094	1,104	1,102	1,106
Openings	—	1	—	9 ⁽¹⁾	3
Closings	(41)	(33)	(10)	(7) ⁽¹⁾	(7)
End of year	1,021	1,062	1,094	1,104	1,102
Gross selling space (<i>square feet in millions</i>)	104.7	107.9	110.6	111.6	111.2
Sales per gross square foot ⁽²⁾	\$ 120	\$ 113	\$ 107	\$ 116	\$ 154
Sales per net selling square foot ⁽²⁾	\$ 165	\$ 155	\$ 147	\$ 161	\$ 212
Number of the Foundry Big and Tall Supply Co. stores⁽³⁾	—	—	10	10	10

(1) Includes 3 relocations.

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

(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 for the allocation of income taxes to other comprehensive income items related to our Primary Pension Plan and interest rate swaps. Unlike other operating expenses, the impact of the 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 for the allocation of income taxes to other comprehensive income items related to our Primary Pension Plan and interest rate swaps 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 for the allocation of income taxes to other comprehensive income items related to our Primary Pension Plan and interest rate swaps on our financial results and therefore are presenting the following non-GAAP financial measures: (1) adjusted EBITDA; (2) adjusted net income/(loss); and (3) adjusted earnings/(loss) per share-diluted.

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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.

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)	2015	2014	2013	2012	2011
		⁽¹⁾	⁽¹⁾	⁽¹⁾	⁽¹⁾
Net income/(loss) from continuing operations	\$ (513)	\$ (717)	\$ (1,278)	\$ (795)	\$ (274)
Add: Net interest expense	405	406	352	226	227
Add: Loss on extinguishment of debt	10	34	114	—	—
Total interest expense	415	440	466	226	227
Add: Income tax expense/(benefit)	9	23	(430)	(432)	(154)
Add: Depreciation and amortization	616	631	601	543	518
EBITDA (non-GAAP)	527	377 ⁽¹⁾	(641) ⁽¹⁾	(458) ⁽¹⁾	317 ⁽¹⁾
Add: Markdowns - inventory strategy alignment	—	—	—	155	—
Add: Restructuring and management transition charges	84	87	215	298	451
Add: Primary pension plan expense/(income)	154	(18)	(52)	(18)	274
Less: Net gain on the sale of non-operating assets	(9)	(25)	(132)	(397)	—
Less: Proportional share of net income from home office land joint venture	(41)	(53)	—	—	—
Less: Certain net gains	—	(88) ⁽²⁾	—	—	—
Adjusted EBITDA (non-GAAP)	\$ 715	\$ 280 ⁽¹⁾	\$ (610) ⁽¹⁾	\$ (420) ⁽¹⁾	\$ 1,042 ⁽¹⁾

(1) Reflects the retrospective application of the change in our method of recognizing pension expense. See Note 3 of Notes to Consolidated Financial Statements for a discussion of the change and related impacts. For 2014, the retrospective application of the change in recognizing pension expense increased EBITDA (non-GAAP) by \$54 million and Adjusted EBITDA (non-GAAP) by \$38 million. For 2013, the retrospective application of the change in recognizing pension expense increased EBITDA (non-GAAP) by \$178 million and Adjusted EBITDA (non-GAAP) by \$26 million. For 2012, the retrospective application of the change in recognizing pension expense increased EBITDA (non-GAAP) by \$309 million and decreased Adjusted EBITDA (non-GAAP) by \$24 million. For 2011, the retrospective application of the change in recognizing pension expense decreased EBITDA (non-GAAP) by \$199 million and Adjusted EBITDA (non-GAAP) by \$12 million.

(2) 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.

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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)	2015	2014 ⁽¹⁾	2013 ⁽¹⁾	2012 ⁽¹⁾	2011 ⁽¹⁾
Net income/(loss) (GAAP) from continuing operations	\$ (513)	\$ (717)	\$ (1,278)	\$ (795)	\$ (274)
Diluted EPS (GAAP) from continuing operations	\$ (1.68)	\$ (2.35)	\$ (5.13)	\$ (3.63)	\$ (1.26)
Add: markdowns - inventory strategy alignment, net of tax of \$-, \$-, \$60 and \$-	—	—	—	95 ⁽²⁾	—
Add: restructuring and management transition charges, net of tax of \$-, \$-, \$28, \$116 and \$145	84 ⁽³⁾	87 ⁽³⁾	187 ⁽⁴⁾	182 ⁽²⁾	306 ⁽⁵⁾
Add/(deduct): primary pension plan expense/(income), net of tax of \$-, \$-, \$(5), \$(7), and \$107	154 ⁽³⁾	(18) ⁽³⁾	(47) ⁽⁶⁾⁽⁷⁾	(11) ⁽²⁾	167 ⁽²⁾
Add: Loss on extinguishment of debt, net of tax of \$-, \$-, \$-, \$- and \$-	10 ⁽³⁾	34 ⁽³⁾	114 ⁽³⁾	—	—
Less: Net gain on sale or redemption of non-operating assets, net of tax of \$-, \$-, \$1, \$146 and \$-	(9) ⁽³⁾	(25) ⁽³⁾	(131) ⁽⁸⁾	(251) ⁽⁵⁾	—
Less: Proportional share of net income from home office land joint venture, net of tax of \$-, \$-, \$-, \$- and \$-	(41) ⁽³⁾	(53) ⁽³⁾	—	—	—
Less: Certain net gains, net of tax of \$-, \$2, \$-, \$- and \$-	—	(86) ⁽⁸⁾	—	—	—
Less: Tax impact resulting from other comprehensive income allocation	—	—	(250) ⁽⁹⁾	—	—
Adjusted net income/(loss) (non-GAAP) from continuing operations	\$ (315)	\$ (778) ⁽¹⁾	\$ (1,405) ⁽¹⁾	\$ (780) ⁽¹⁾	\$ 199 ⁽¹⁾
Adjusted diluted EPS (non-GAAP) from continuing operations	\$ (1.03)	\$ (2.55) ⁽¹⁾	\$ (5.64) ⁽¹⁾	\$ (3.56) ⁽¹⁾	\$ 0.90 ⁽¹⁾⁽¹⁰⁾

(1) Reflects the retrospective application of the change in our method of recognizing pension expense. See Note 3 of Notes to Consolidated Financial Statements for a discussion of the change and related impacts. For 2014, the retrospective application of the change in recognizing pension expense increased Adjusted net income/(loss) (non-GAAP) from continuing operations by \$38 million and Adjusted diluted EPS (non-GAAP) from continuing operations by \$0.12. For 2013, the retrospective application of the change in recognizing pension expense increased Adjusted net income/(loss) (non-GAAP) from continuing operations by \$26 million and Adjusted diluted EPS (non-GAAP) from continuing operations by \$0.10. For 2012, the retrospective application of the change in recognizing pension expense decreased Adjusted net income/(loss) (non-GAAP) from continuing operations by \$14 million and Adjusted diluted EPS (non-GAAP) from continuing operations by \$0.07. For 2011, the retrospective application of the change in recognizing pension expense decreased Adjusted net income/(loss) (non-GAAP) from continuing operations by \$8 million and Adjusted diluted EPS (non-GAAP) from continuing operations by \$0.04.

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

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

(4) 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.

(5) Tax effect was calculated using the effective tax rate for the transactions.

(6) 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 9 below.

(7) Tax effect for the three months ended May 4, 2013 was calculated using the Company's statutory rate of 38.82%.

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

(9) 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.

(10) 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.

<i>(\$ in millions)</i>	2015	2014	2013	2012	2011
Net cash provided by/(used in) operating activities (GAAP)	\$ 440	\$ 239	\$ (1,814)	\$ (10)	\$ 820
Less:					
Capital expenditures	(320)	(252)	(951)	(810)	(634)
Dividends paid, common stock	—	—	—	(86)	(178)
Plus:					
Proceeds from sale of operating assets	11	70	19	—	15
<i>Free cash flow (non-GAAP)</i>	<u>\$ 131</u>	<u>\$ 57</u>	<u>\$ (2,746)</u>	<u>\$ (906)</u>	<u>\$ 23</u>

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.

Strategic Framework

Our strategic framework is built upon the three pillars of private brands, omnichannel and revenue per customer.

Product differentiation, affordable style and quality and enhanced profitability are critical to the success of our private brands. With our team of designers and our proprietary designs, we believe we can differentiate our private and exclusive brands from our competitors and the overall marketplace. Through our private brand selection, we believe we can provide value to our customers by offering products with style and quality at an attractive price point. Lastly, with our global sourcing infrastructure, we believe we are uniquely positioned to enhance our merchandise margins by managing product development costs and maintaining flexibility with our price offerings. During 2015, private brand merchandise comprised 44% of total merchandise sales, as compared to 42% and 41% in 2014 and 2013, respectively. During 2015, 2014 and 2013, exclusive brand merchandise comprised 8%, 11% and 11%, respectively, of total merchandise sales.

Our second strategic area of focus is omnichannel. With our heritage of being a catalog retailer, we believe we have the right foundation in place to enhance our omnichannel capabilities. Today’s customer wants to decide when and how she wants to shop, whether in store or online using multiple personal devices. Improving the omnichannel experience for our customers involves further development of our mobile apps, providing more fulfillment choices to the customer and expanding our merchandise assortment. In 2015, we made significant improvements to our mobile app and began testing “buy online and pick up in store same day.” We also intend to continue to expand our online assortment to increase sales and differentiate ourselves from pure e-commerce competitors.

Our final strategic priority is revenue per customer. For 2016, we are focused on three initiatives to increase the frequency and amount customers spend on every transaction. First, we plan to accelerate our growth of Sephora inside JCPenney locations. In 2015, we opened 28 additional Sephora locations, bringing our total number of locations to 518, and introduced a selection of Sephora makeup, skincare and fragrance products to jcpenney.com. We plan to add approximately 60 new Sephora locations in 2016. Second, we continue to enhance our salon environment through our rebranding initiative in partnership with InStyle magazine. Third, for 2016 we plan to redesign the center core area, which includes fashion and fine jewelry, handbags, footwear, sunglasses, and accessories, in approximately one-third of our stores.

2015 Highlights

- Sales were \$12,625 million, an increase of 3.0% as compared to 2014, and comparable store sales increased 4.5%.
- Gross margin as a percentage of sales was 36.0% compared to 34.8% last year. The increase in gross margin as a percentage of sales is primarily due to improved margins on our clearance merchandise.
- Selling, general and administrative (SG&A) expenses decreased \$218 million, or 5.5%, as compared to 2014.
- Our net loss was \$513 million, or \$1.68 per share, compared to a net loss of \$717 million, or \$2.35 per share, in 2014. Results for 2015 included the following amounts that are not directly related to our ongoing core business operations:
 - \$84 million, or \$0.27 per share, of restructuring and management transition charges;
 - \$180 million, or \$0.59 per share, for the impact related to the settlement of a portion of the Primary Pension Plan obligation;
 - \$10 million, or \$0.03 per share, for the loss on extinguishment of debt;
 - \$9 million, or \$0.03 per share, for the net gain on the sale of non-operating assets; and
 - \$41 million, or \$0.13 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).
- We elected to change our method of recognizing pension expense. Previously, for the primary and supplemental pension plans, net actuarial gains or losses in excess of 10% of the greater of the fair value of plan assets or the plans' projected benefit obligation (the corridor) were recognized over the remaining service period of plan participants (eight years for the Primary Pension Plan). Under the new accounting method, we recognize changes in net actuarial gains or losses in excess of the corridor annually in the fourth quarter each year (Mark-to-market (MTM) Adjustment).
- EBITDA was \$527 million for 2015, an improvement of \$150 million compared to EBITDA of \$377 million in 2014. Adjusted EBITDA was \$715 million for 2015 compared to adjusted EBITDA of \$280 million in 2014.
- On August 1, 2015, Marvin R. Ellison succeeded Myron E. Ullman, III as CEO of the Company. At that time, Mr. Ullman became Executive Chairman of the Board of Directors.
- On December 10, 2015, J. C. Penney Company, Inc., JCP and J. C. Penney Purchasing Corporation (Purchasing) amended the Company's senior secured asset-based credit facility (2014 Credit Facility) to increase the revolving line of credit under the facility (Revolving Facility) to \$2,350 million. In connection with upsizing the Revolving Facility, we prepaid and retired the outstanding principal amount of the \$500 million term loan under the facility.

Results of Operations

Three-Year Comparison of Operating Performance

(in millions, except per share data)

	2015	2014 ⁽¹⁾	2013 ⁽¹⁾
Total net sales	\$ 12,625	\$ 12,257	\$ 11,859
Percent increase/(decrease) from prior year	3.0 %	3.4 %	(8.7)% ⁽²⁾
Comparable store sales increase/(decrease) ⁽³⁾	4.5 %	4.4 %	(7.4)%
Gross margin	4,551	4,261	3,492
Operating expenses/(income):			
Selling, general and administrative	3,775	3,993	4,114
Pension	162	(48)	(41)
Depreciation and amortization	616	631	601
Real estate and other, net	3	(148)	(155)
Restructuring and management transition	84	87	215
Total operating expenses	4,640	4,515	4,734
Operating income/(loss)	(89)	(254)	(1,242)
As a percent of sales	(0.7)%	(2.1)%	(10.5)%
Loss on extinguishment of debt	10	34	114
Net interest expense	405	406	352
Income/(loss) before income taxes	(504)	(694)	(1,708)
Income tax (benefit)/expense	9	23	(430)
Net income/(loss)	\$ (513)	\$ (717)	\$ (1,278)
EBITDA ⁽⁴⁾	\$ 527	\$ 377	\$ (641)
Adjusted EBITDA ⁽⁴⁾	\$ 715	\$ 280	\$ (610)
Adjusted net income/(loss) (non-GAAP) ⁽⁴⁾	\$ (315)	\$ (778)	\$ (1,405)
Diluted EPS	\$ (1.68)	\$ (2.35)	\$ (5.13)
Adjusted diluted EPS (non-GAAP) ⁽⁴⁾	\$ (1.03)	\$ (2.55)	\$ (5.64)
Weighted average shares used for diluted EPS	305.9	305.2	249.3

(1) Reflects the retrospective application of the change in our method of recognizing pension expense. See Note 3 of Notes to Consolidated Financial Statements for a discussion of the change and the impact of the change for the years 2014 and 2013.

(2) 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.

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

(4) 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.

2015 Compared to 2014

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.

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	2015	2014
Total net sales (in millions)	\$ 12,625	\$ 12,257
Sales percent increase/(decrease)		
Total net sales	3.0%	3.4%
Comparable store sales ⁽¹⁾	4.5%	4.4%
Sales per gross square foot ⁽²⁾	\$ 120	\$ 113

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

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

Total net sales increased \$368 million in 2015 compared to 2014. The following table provides the components of the net sales increase:

(\$ in millions)	2015
Comparable store sales increase/(decrease)	\$ 538
Sales related to closed stores, net	(175)
Other revenues and sales adjustments	5
Total net sales increase/(decrease)	\$ 368

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

- Stores increase Internet sales by providing customers opportunities to view, touch and/or try on physical merchandise before ordering online.
- Our website increases store sales as in-store customers have often pre-shopped online before shopping in the store, including verification of which stores have online merchandise in stock.
- Most Internet purchases are easily returned in our stores.
- JCP Rewards can be earned and redeemed online or in stores.
- In-store customers can order from our website with the assistance of associates in our stores or they can shop our website from the JCPenney app while inside the store.
- Customers who utilize our mobile application can receive mobile coupons to use when they check out both online or in our stores.
- Internet orders can be shipped from a dedicated jcpenny.com fulfillment center, a store, a store merchandise distribution center, a regional warehouse, directly from vendors or any combination of the above.
- Certain categories of store inventory can be accessed and purchased by jcpenny.com customers and shipped directly to the customer's home from the store.
- Internet orders can be shipped to stores for customer pick up.
- Order online and "pick-up in store same day" began to roll out to select markets in the second half of 2015.

Both total net sales and comparable store sales increased during 2015 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 mobile application that creates an enhanced digital experience. In addition, we continue to move closer to a true omnichannel state with our continuation of "ship to stores" and "ship from stores" and our plans to roll out "buy-online-pick-up-in-store same day" chainwide prior to the 2016 Back to School selling season.

For 2015, conversion, transaction counts and average unit retail increased, while the units per transaction decreased as compared to the prior year. On a geographic basis, all regions experienced comparable store sales increases for 2015 compared

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to the prior year. During 2015, our Sephora, Footwear and Handbags, Home, and Men's merchandise divisions experienced sales increases. Sephora, which reflected the addition of 28 Sephora inside JCPenney locations, experienced the highest sales increase.

Gross Margin

Gross margin is a measure of profitability of a retail company at the most fundamental level of buying and selling merchandise. 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.

Gross margin increased to 36.0% of sales in 2015, or 120 basis points, compared to 2014. On a dollar basis, gross margin increased \$290 million, or 6.8%, to \$4,551 million in 2015 compared to \$4,261 million in the prior year. The net 120 basis point increase resulted primarily from improved margins on our clearance merchandise.

SG&A Expenses

SG&A expenses declined \$218 million to \$3,775 million in 2015 compared to \$3,993 million in 2014. As a percent of sales, SG&A expenses were 29.9% compared to 32.6% in the prior year. The net 270 basis point decrease primarily resulted from lower store controllable costs, more efficient advertising spend and improved private label credit card revenue, which is recorded as a reduction of our SG&A expenses. These decreases were partially offset by an increase in incentive compensation.

Our private label credit card and co-branded MasterCard® programs are owned and serviced by Synchrony Financial (Synchrony). Under our agreement with Synchrony, we receive cash payments from Synchrony based upon the performance of the credit card portfolio. We participate in the programs by providing marketing promotions designed to increase the use of each card, including enhanced marketing offers for cardholders. Additionally, we accept payments in our stores from cardholders who prefer to pay in person when they are shopping in our locations. The income we earn under our agreement with Synchrony is included as an offset to SG&A expenses. For 2015 and 2014, we recognized income of \$367 million and \$313 million, respectively, pursuant to our agreement with Synchrony.

Pension

Pension expense/(income) provided below reflects the retrospective application of the change in our method of recognizing pension expense. See Note 3 of Notes to Consolidated Financial Statements for a discussion of the change and the impact of the change for 2014.

(\$ in millions)	2015	2014
Primary pension plan expense/(income)	\$ 154	\$ (18)
Supplemental pension plans expense/(income)	8	(30)
Total pension expense/(income)	\$ 162	\$ (48)

Total pension expense, which consists of our Primary Pension Plan expense and our supplemental pension plans expense, increased primarily due to the \$180 million settlement charge of unrecognized actuarial losses as a result of a total transfer of approximately \$1.5 billion in Primary Pension Plan assets to settle a portion of the Primary Pension Plan obligation. The transfers included a lump-sum payment of Primary Pension Plan assets as elected by a group of plan participants and the purchase of an annuity contract from an insurance company that will pay and administer future benefits to select retirees. Additionally, the MTM adjustment was expense of \$53 million and \$12 million in 2015 and 2014, respectively.

Depreciation and Amortization Expenses

Depreciation and amortization expense in 2015 decreased \$15 million to \$616 million, or 2.4%, compared to \$631 million in 2014. This decrease is primarily a result of closing 74 store locations since the beginning of 2014.

Real Estate and Other, Net

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

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

<i>(\$ in millions)</i>	2015	2014
Net gain from sale of non-operating assets	\$ (9)	\$ (25)
Investment income from Home Office Land Joint Venture	(41)	(53)
Net gain from sale of operating assets	(9)	(92)
Store and other asset impairments	20	30
Other	42	(8)
Total expense/(income)	\$ 3	\$ (148)

In 2015 and 2014, we sold several non-operating assets for a net gain of \$9 million and \$25 million, respectively. Investment income from the Home Office Land Joint Venture represents our proportional share of net income of the joint venture.

In 2015, the net gain from the sale of operating assets related to the sale of a former furniture store location, payments received from landlords to terminate two leases prior to the original expiration date and the sale of excess property. In 2014, the net gain from the sale of operating assets related to the sale of three department store locations.

Store impairments totaled \$- million and \$30 million in 2015 and 2014, respectively. The 2014 impairments related to 19 underperforming department stores that continued to operate. Additionally, in 2015, we incurred an impairment charge related to the write-down of internal use software products that will not be implemented.

Included in the other category is a \$50 million accrual for the proposed settlement related to a pricing class action lawsuit. Pursuant to the settlement, which is subject to court approval, class members will have the option of selecting a cash payment or store credit. The amount of the payment or credit will depend on the total amount of certain merchandise purchased by each class member during the class period.

See "Restructuring and Management Transition" below for additional impairments related to stores closed in 2015 and stores scheduled to be closed in 2016.

Restructuring and Management Transition

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

<i>(\$ in millions)</i>	2015	2014
Home office and stores	\$ 42	\$ 45
Management transition	28	16
Other	14	26
Total	\$ 84	\$ 87

In 2015 and 2014, we recorded \$42 million and \$45 million, respectively, of costs to reduce our store and home office expenses. The costs relate to employee termination benefits, lease termination costs and impairment charges associated with the expected closure of 7 underperforming department stores in 2016 and the 2015 closing of 41 such stores. Additionally, the costs include employee termination benefits in connection with the elimination of approximately 300 positions in our home office in 2015.

We also implemented several changes within our management leadership team during 2015 and 2014 that resulted in management transition costs of \$28 million and \$16 million, respectively, for both incoming and outgoing members of management. Other miscellaneous restructuring charges of \$14 million and \$26 million, primarily related to contract termination and other costs associated with our previous shops strategy, were recorded during 2015 and 2014, respectively.

Operating Income/(Loss)

For 2015, we reported an operating loss of \$89 million compared to an operating loss of \$254 million in 2014, which is an improvement of \$165 million.

Loss on Extinguishment of Debt

In December 2015, we prepaid and retired the outstanding \$494 million principal amount of the term loan under the 2014 Credit Facility and recognized a loss on extinguishment of debt of \$10 million for the write off of the related unamortized debt issuance costs.

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 \$405 million, a decrease of \$1 million, or 0.2%, from \$406 million in 2014.

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 30, 2016, the federal and state valuation allowances were \$789 million and \$236 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 2013, we are required to recognize a tax benefit in continuing operations up to the amount of tax expense that we are required to report in other comprehensive income. In 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 \$1,025 million noted above is \$244 million of valuation allowance which offsets the deferred tax benefit attributable to the actuarial loss reported in other comprehensive income.

For 2015, we recorded a net tax expense of \$9 million. The net tax expense included \$7 million related to the amortization of certain indefinite-lived intangible assets, \$12 million for state and foreign jurisdictions where loss carryforwards are limited or unavailable offset by net tax benefits of \$2 million for state audit settlements and \$8 million to adjust the valuation allowance.

For 2014, we recorded a net tax expense of \$23 million. 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.

EBITDA and Adjusted EBITDA (non-GAAP)

In 2015, EBITDA was \$527 million, an improvement of \$150 million from EBITDA of \$377 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 \$715 million, improving \$435 million for 2015 compared to adjusted EBITDA of \$280 million for the prior year corresponding period.

Overall, EBITDA and adjusted EBITDA improved significantly in 2015 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 2015, we reported a loss of \$513 million, or \$1.68 per share, compared with a loss of \$717 million, or \$2.35 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 and certain net gains, adjusted net income/(loss) (non-GAAP) went from a loss of \$778 million, or \$2.55 per share, in 2014 to a loss of \$315 million, or \$1.03 per share, in 2015.

2014 Compared to 2013

Total Net Sales

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

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

Total net sales 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 related to 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.

For 2014, conversion, 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 Children's and Footwear divisions were the only divisions that experienced sales declines.

Gross Margin

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

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.

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Our private label credit card and co-branded MasterCard® programs are owned and serviced by Synchrony Financial (Synchrony). Under our agreement with Synchrony, we receive cash payments from Synchrony based upon the performance of the credit card portfolio. We participate in the programs by providing marketing promotions designed to increase the use of each card, including enhanced marketing offers for cardholders. Additionally, we accept payments in our stores from cardholders who prefer to pay in person when they are shopping in our locations. The income we earn under our agreement with Synchrony is included as an offset to SG&A expenses. For 2014 and 2013, we recognized income of \$313 million and \$306 million, respectively, pursuant to our agreement with Synchrony.

Pension Expense

Pension expense provided below reflects the retrospective application of the change in our method of recognizing pension expense. See Note 3 of Notes to Consolidated Financial Statements for a discussion of the change and the impact of the change for the years 2014 and 2013.

<i>(\$ in millions)</i>	2014	2013
Primary pension plan expense/(income)	\$ (18)	\$ (52)
Supplemental pension plans expense/(income)	(30)	11
Total pension expense/(income)	<u>\$ (48)</u>	<u>\$ (41)</u>

Total pension expense, which consists of our Primary Pension Plan expense and our supplemental pension plans expense, resulted in pension income in 2014 and 2013 as a result of the expected return on plan assets exceeding the pension costs respectively for each year. Additionally, the MTM Adjustment was \$12 million in expense in 2014 and \$2 million in income in 2013.

Depreciation and Amortization Expense

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 excluded \$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 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:

<i>(\$ in millions)</i>	2014	2013
Net gain from sale of non-operating assets	\$ (25)	\$ (132)
Investment income from Home Office Land Joint Venture	(53)	—
Net gain from sale of operating assets	(92)	(17)
Store and other asset impairments	30	27
Other	(8)	(33)
Total expense/(income)	<u>\$ (148)</u>	<u>\$ (155)</u>

In 2014, we sold several non-operating assets for a net gain of \$25 million. In 2013, we sold REIT investments and three joint venture investments for a total net gain of \$132 million. Investment income from the Home Office Land Joint Venture represents our proportional share of net income of the joint venture.

In 2014, the net gain from the sale of operating assets related to the sale of three department store locations. In 2013, we had a gain on the sale of our leasehold interest of a former department store location.

Store impairments totaled \$30 million and \$27 million in 2014 and 2013, respectively. The 2014 and 2013 impairments related to 19 and 25 underperforming department stores, respectively, that continued to operate. In addition, in 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" below for additional impairments related to store closures.

Restructuring and Management Transition

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

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

In 2014 and 2013, we recorded \$45 million and \$48 million, respectively, of costs to reduce our store and home office expenses. The costs relate to employee termination benefits, lease termination costs and impairment charges associated with the 2015 closing of 40 underperforming department stores and the 2014 closing of 33 such stores. Additionally, the costs include employee termination benefits in connection with the elimination of positions in our home office.

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

We also implemented several changes within our management leadership team during 2014 and 2013 that resulted in management transition costs of \$16 million and \$37 million, respectively, for both incoming and outgoing members of management. Other miscellaneous restructuring charges of \$26 million and \$75 million recorded during 2014 and 2013, respectively, were primarily related to contract termination costs and other costs associated with our previous marketing and shops strategy. The charges in 2013 included a non-cash charge of \$36 million 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.

Operating Income/(Loss)

For 2014, we reported an operating loss of \$254 million compared to an operating loss of \$1,242 million in 2013, which was an improvement of \$988 million.

Loss on Extinguishment of Debt

During the third quarter of 2014, we completed an offering of \$400 million aggregate principal amount of our 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) (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 the 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 included 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 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 \$406 million, an increase of \$54 million, or 15.3%, from \$352 million in 2013. The increase in net interest expense was 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 2013, we are required to recognize a tax benefit in continuing operations up to the amount of tax expense that we are required to report in other comprehensive income. In 2014, 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 \$190 million of valuation allowance which offsets the deferred tax benefit attributable to the actuarial loss reported in other comprehensive income.

For 2014, we recorded a net tax expense of \$23 million. 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 2013, we recorded a net tax benefit of \$430 million resulting in an effective tax rate of (25.2)%. The net tax benefit consisted of net federal, foreign and state tax benefits of \$182 million, a \$250 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 \$250 million tax benefit recorded on the loss in continuing operations was offset by income tax expense in other comprehensive income of \$250 million.

EBITDA and Adjusted EBITDA (non-GAAP)

In 2014, EBITDA was a positive \$377 million, an improvement of \$1,018 million compared to a negative EBITDA of \$641 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 \$890 million to an adjusted EBITDA of \$280 million for 2014 compared to a negative adjusted EBITDA of \$610 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 \$717 million, or \$2.35 per share, compared with a loss of \$1,278 million, or \$5.13 per share, in 2013. 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 income/(loss) (non-GAAP) went from a loss of \$1,405 million, or \$5.64 per share, in 2013 to a loss of \$778 million, or \$2.55 per share, in 2014.

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 2015, we executed the following transactions:

- Entered into interest rate swap agreements with notional amounts totaling \$1,250 million to fix a portion of our variable LIBOR-based interest payments. The interest rate swap agreements, which were effective May 7, 2015, have a weighted-average fixed rate of 2.04%, mature on May 7, 2020 and have been designated as cash flow hedges.
- The amendment to the 2014 Credit Facility. The amendment increased the size of the Revolving Facility to \$2,350 million. In connection with upsizing the Revolving Facility, we prepaid and retired the \$494 million outstanding principal amount of the term loan under the 2014 Credit Facility.

We ended the year with \$900 million of cash and cash equivalents, a decrease of \$418 million from the prior year. As of the end of 2015, based on our borrowing base and amounts reserved for outstanding standby and import letters of credit, we had \$1,568 million available for future borrowings under the Revolving Facility, providing a total available liquidity of \$2.5 billion.

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

(\$ in millions)	2015	2014	2013
Cash and cash equivalents	\$ 900	\$ 1,318	\$ 1,515
Merchandise inventory	2,721	2,652	2,935
Property and equipment, net	4,816	5,148	5,619
Total debt ⁽¹⁾	4,805	5,321	5,510
Stockholders' equity	1,309	1,914	3,087
Total capital	6,114	7,235	8,597
Maximum capacity under our credit agreement	2,350	1,850	1,850
Cash flow from operating activities	440	239	(1,814)
Free cash flow (non-GAAP) ⁽²⁾	131	57	(2,746)
Capital expenditures	320	252	951
Ratios:			
Debt-to-total capital ⁽³⁾	78.6%	73.5%	64.1%
Cash-to-debt ⁽⁴⁾	18.7%	24.8%	27.5%

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

(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.

Free Cash Flow (Non-GAAP)

During 2015, free cash flow increased \$74 million to an inflow of \$131 million compared to an inflow of \$57 million in 2014. This gain was operationally driven by significant improvement in the profitability of our business and strong expense control. In addition, free cash flow was impacted by an increase in capital expenditures and a decrease in proceeds from the sale of operating assets during 2015 when compared to 2014.

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 2015, cash flow from operating activities was an inflow of \$440 million, an increase of \$201 million compared to an inflow of \$239 million during the same period last year. Our net loss as of the end of 2015 of \$513 million included significant charges and credits that did not impact operating cash flow, including depreciation and amortization, certain restructuring and management transition charges, loss on extinguishment of debt, benefit plans, the sale of operating and non-operating assets

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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. In addition, during 2015 we received an aggregate cash distribution of \$36 million from the Home Office Land Joint Venture. Cash flows from operating activities also included construction allowances from landlords of \$17 million, which provided additional cash that was used to fund a portion of our capital expenditures in investing activities.

Merchandise inventory increased \$69 million to \$2,721 million, or 2.6%, as of the end of 2015 compared to \$2,652 million as of the end of last year. Inventory turns for 2015, 2014 and 2013 were 2.65, 2.74 and 2.65 respectively. Merchandise accounts payable decreased \$72 million at the end of 2015 compared to 2014.

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 prior year. Our net loss as of the end of 2014 of \$717 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. 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 \$4 million, which provided additional cash that was used to fund a portion of our capital expenditures in investing activities.

Investing Activities

In 2015, investing activities was a cash outflow of \$296 million compared to an outflow of \$142 million for 2014. The increase in the cash outflow from investing activities was primarily a result of an increase in capital expenditures and a decrease in proceeds from the sale of operating assets.

For 2015, capital expenditures were \$320 million. At the end of the year, we also had an additional \$13 million of accrued capital expenditures, which will be paid in subsequent periods. The capital expenditures for 2015 related primarily to the opening of 28 Sephora inside JCPenney stores, investments in information technology in both our home office and stores and investments in our store environment. We received construction allowances from landlords of \$17 million in 2015, 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.

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 were paid in 2015. 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 also received construction allowances from landlords of \$4 million in 2014.

The following provides a breakdown of capital expenditures:

(\$ in millions)	2015	2014	2013
Store renewals and updates	\$ 170	\$ 152	\$ 875
Capitalized software	93	39	29
New and relocated stores	—	30	10
Technology and other	57	31	37
Total	\$ 320	\$ 252	\$ 951

We expect our investment in capital expenditures for 2016 to be approximately \$375 million, net of construction allowances from landlords, which will relate primarily to our store environment, investments in information technology and the continued

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roll-out of approximately 60 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 2015, cash flows from financing activities were an outflow of \$562 million compared to an outflow of \$294 million for the same period last year.

During 2015, we prepaid and retired the \$494 million outstanding principal amount of the term loan under the 2014 Credit Facility. Through 2015, we repaid \$33 million on our capital leases and note payable and \$22 million on the 2013 Term Loan. In addition, we incurred \$4 million of financing costs relating to the 2014 Credit Facility.

During 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 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 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.

During 2014, in conjunction with entering into our 2014 Credit Facility, we used the \$500 million of proceeds from the term loan under the 2014 Credit Facility, 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 the term loan under the 2014 Credit Facility.

Cash Flow and Financing Outlook

Our primary sources of liquidity are cash generated from operations, available cash and cash equivalents and access to our revolving credit facility. Our cash flows may be impacted by many factors including the economic environment, consumer confidence, competitive conditions in the retail industry and the success of our strategies. For 2016, 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

The Company has a \$2,350 million asset-based senior secured credit facility (2014 Credit Facility) that is comprised of a \$2,350 million revolving line of credit (Revolving Facility). As of the end of 2015, we had no borrowings outstanding under the Revolving Facility. In addition, as of the end of 2015, based on our borrowing base, we had \$1,848 million available for borrowing under the facility, of which \$280 million was reserved for outstanding standby and import letters of credit, none of which have been drawn on, leaving \$1,568 million for future borrowings. The applicable rate for standby and import letters of credit were 2.50% and 1.25%, respectively, while the commitment fee was 0.375% for the unused portion of the Revolving Facility.

Credit Ratings

Our credit ratings and outlook as of March 11, 2016 were as follows:

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

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

Contractual Obligations and Commitments

Aggregated information about our obligations and commitments to make future contractual payments, such as debt and lease agreements, and contingent commitments as of January 30, 2016 is presented in the following table.

(\$ in millions)	Total	Less Than 1 Year	1 - 3 Years	3 - 5 Years	More Than 5 Years
Recorded contractual obligations:					
Long-term debt	\$ 4,830	\$ 101	\$ 2,692	\$ 800	\$ 1,237
Capital leases and note payable	37	27	10	—	—
Unrecognized tax benefits ⁽¹⁾	91	3	—	—	88
Contributions to non-qualified supplemental retirement and postretirement medical plans ⁽²⁾	188	46	41	30	71
	<u>\$ 5,146</u>	<u>\$ 177</u>	<u>\$ 2,743</u>	<u>\$ 830</u>	<u>\$ 1,396</u>
Unrecorded contractual obligations:					
Interest payments on long-term debt ⁽³⁾	\$ 4,803	\$ 319 ⁽⁴⁾	\$ 515	\$ 244	\$ 3,725
Operating leases ⁽⁵⁾	2,687	227	369	275	1,816
Standby and import letters of credit ⁽⁶⁾	280	280	—	—	—
Surety bonds ⁽⁷⁾	76	76	—	—	—
Contractual obligations ⁽⁸⁾	195	127	67	1	—
Purchase orders ⁽⁹⁾	2,130	2,130	—	—	—
Guarantees ⁽¹⁰⁾	2	1	1	—	—
	<u>\$ 10,173</u>	<u>\$ 3,160</u>	<u>\$ 952</u>	<u>\$ 520</u>	<u>\$ 5,541</u>
Total	<u>\$ 15,319</u>	<u>\$ 3,337</u>	<u>\$ 3,695</u>	<u>\$ 1,350</u>	<u>\$ 6,937</u>

(1) Represents management's best estimate of the payments related to tax reserves for uncertain income tax positions. Based on the nature of these liabilities, the actual payments in any given year could vary significantly from these amounts. See Note 19 to the Consolidated Financial Statements.

(2) Represents expected cash payments through 2025.

(3) Includes interest expense related to our 2013 Term Loan of \$328 million that was calculated using its interest rate as of January 30, 2016 for the anticipated amount outstanding each period, which assumes the required principal payments for the loan remain the same each quarter.

(4) Includes \$88 million of accrued interest that is included in our Consolidated Balance Sheet at January 30, 2016.

(5) Represents future minimum lease payments for non-cancelable operating leases, including renewals determined to be reasonably assured. Future minimum lease payments have not been reduced for sublease income.

(6) Standby letters of credit, which totaled \$280 million, are issued as collateral to a third-party administrator for self-insured workers' compensation and general liability claims and to support our merchandise initiatives. There were no outstanding import letters of credit at January 30, 2016.

(7) Surety bonds are primarily for previously incurred and expensed obligations related to workers' compensation and general liability claims.

(8) Consists primarily of (a) minimum purchase requirements for exclusive merchandise and fixtures; (b) royalty obligations; and (c) minimum obligations for professional services, energy services, software maintenance and network services.

(9) Amounts committed under open purchase orders for merchandise inventory of which a significant portion are cancelable without penalty prior to a date that precedes the vendor's scheduled shipment date.

(10) Relates to third-party guarantees.

Off-Balance Sheet Arrangements

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

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

Impact of Inflation, Deflation and Changing Prices

We have experienced inflation and deflation related to our purchase of certain commodity products. We do not believe that changing prices for commodities have had a material effect on our Net Sales or results of operations. Although we cannot precisely determine the overall effect of inflation and deflation on operations, we do not believe inflation and deflation have had a material effect on our financial condition or results of operations.

Critical Accounting Policies

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

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

Inventory Valuation under the Retail Method

Inventories are valued primarily at the lower of cost (using the first-in, first-out or “FIFO” method) or market, determined under the Retail Inventory Method (RIM) for department stores, store distribution centers and regional warehouses and standard cost, representing average vendor cost, for merchandise we sell through the Internet at [jcpenny.com](#). Under RIM, retail values of merchandise groups are converted to a cost basis by applying the specific average cost-to-retail ratio related to each merchandise grouping. RIM inherently requires management judgment and certain estimates that may significantly impact the ending inventory valuation at cost, as well as gross margin. The most significant estimates are permanent reductions to retail prices (markdowns) and permanent devaluation of inventory (markdown accruals) used primarily to clear seasonal merchandise or otherwise slow-moving inventory and inventory shortage (shrinkage).

Permanent markdowns and markdown accruals are designated for clearance activity and are recorded at the point of decision, when the utility of inventory has diminished, versus the point of sale. Factors considered in the determination of permanent markdowns and markdown accruals include current and anticipated demand, customer preferences, age of the merchandise and style trends. Under RIM, permanent markdowns and markdown accruals result in the devaluation of inventory and the corresponding reduction to gross margin is recognized in the period the decision to markdown is made. Shrinkage is estimated as a percent of sales for the period from the last physical inventory date to the end of the fiscal period. Physical inventories are taken at least annually and inventory records are adjusted accordingly. The shrinkage rate from the most recent physical inventory, in combination with current events and historical experience, is used as the standard for the shrinkage accrual rate for the next inventory cycle. Historically, our actual physical inventory count results have shown our estimates to be reliable. Based on prior experience, we do not believe that the actual results will differ significantly from the assumptions used in these estimates.

Valuation of Long-Lived and Indefinite-Lived Assets

Long-Lived Assets

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

We recognize impairment losses in the earliest period that it is determined a loss has occurred. The carrying value is adjusted to the new carrying value and any subsequent increases in fair value are not recorded. If it is determined that the estimated remaining useful life of the asset should be decreased, the periodic depreciation expense is adjusted based on the new carrying

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value of the asset. Impairment losses totaling \$0 million, \$30 million and \$18 million in 2015, 2014 and 2013, respectively, were recorded in the Consolidated Statement of Operations in the line item Real estate and other, net.

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

Indefinite-Lived Assets

We assess the recoverability of indefinite-lived intangible assets at least annually during the fourth quarter of our fiscal year or whenever events or changes in circumstances indicate that the carrying amount of the indefinite-lived intangible asset may not be fully recoverable. Examples of a change in events or circumstances include, but are not limited to, a decrease in the market price of the asset, a history of cash flow losses related to the use of the asset or a significant adverse change in the extent or manner in which an asset is being used. For our 2015 annual impairment test, we tested our indefinite-lived intangible assets utilizing the relief from royalty method to determine the estimated fair value for each indefinite-lived intangible asset. The relief from royalty method estimates our theoretical royalty savings from ownership of the intangible asset. Key assumptions used in this model include discount rates, royalty rates, growth rates, sales projections and terminal value rates. Discount rates, royalty rates, growth rates and sales projections are the assumptions most sensitive and susceptible to change as they require significant management judgment. Discount rates used are similar to the rates estimated by the weighted average cost of capital considering any differences in company-specific risk factors. Royalty rates are established by management based on comparable trademark licensing agreements in the market. Operational management, considering industry and company-specific historical and projected data, develops growth rates and sales projections associated with each indefinite-lived intangible asset. Terminal value rate determination follows common methodology of capturing the present value of perpetual sales estimates beyond the last projected period assuming a constant weighted average cost of capital and long-term growth rates.

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

Reserves and Valuation Allowances

Insurance Reserves

We are primarily self-insured for costs related to workers' compensation and general liability claims. The liabilities represent our best estimate, using generally accepted actuarial reserving methods through which we record a provision for workers' compensation and general liability risk based on historical experience, current claims data and independent actuarial best estimates, including incurred but not reported claims and projected loss development factors. These estimates are subject to the frequency, lag and severity of claims. We target this provision above the midpoint of the actuarial range, and total estimated claim liability amounts are discounted using a risk-free rate. We do not anticipate any significant change in loss trends, settlements or other costs that would cause a significant fluctuation in net income. However, a 10% variance in the workers' compensation and general liability reserves at year-end 2015, would have affected our SG&A expenses by approximately \$21 million.

Valuation of Deferred Tax Assets

We account for income taxes using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recorded to reduce the carrying amounts of deferred tax assets unless it is more likely than not such assets will be realized.

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

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negative evidence that is difficult to overcome in determining that a valuation allowance is not needed against deferred tax assets.

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

- Nature, frequency, and severity of current and cumulative financial reporting losses. A pattern of recent losses is heavily weighted as a source of negative evidence. In certain circumstances, historical information may not be as relevant due to a change in circumstances.
- Sources of future taxable income. Future reversals of existing temporary differences are heavily weighted sources of objectively verifiable positive evidence. Projections of future taxable income, exclusive of reversing temporary differences, are a source of positive evidence only when the projections are combined with a history of recent profits and can be reasonably estimated. Otherwise, these projections are considered inherently subjective and generally will not be sufficient to overcome negative evidence that includes cumulative losses in recent years, particularly if the projected future taxable income is dependent on an anticipated turnaround to profitability that has not yet been achieved. In such cases, we generally give these projections of future taxable income no weight for the purposes of our valuation allowance assessment.
- Tax planning strategies. If necessary and available, tax-planning strategies would be implemented to accelerate taxable amounts to utilize expiring net operating loss carryforwards. These strategies would be a source of additional positive evidence and, depending on their nature, could be heavily weighted.

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

Future book pre-tax losses will require additional valuation allowances to offset the deferred tax assets created. A sustained period of profitability is required before we would change our need for a valuation allowance against our net deferred tax assets.

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

Environmental Reserves

In establishing our reserves for liabilities associated with underground storage tanks, we maintain and periodically update an inventory listing of potentially impacted sites. The estimated cost of remediation efforts is based on our historical experience, as well as industry and other published data. With respect to our former drugstore operations, we accessed extensive databases of environmental matters, including data from the Environmental Protection Agency, to estimate the cost of remediation. Our experience, as well as relevant data, was used to develop a range of potential liabilities, and a reserve was established at the time of the sale of our drugstore business. The reserve is adjusted as payments are made or new information becomes known. Reserves for asbestos removal are based on our known liabilities in connection with approved plans for store modernization, renovations or dispositions of store locations.

We believe the established reserves, as adjusted, are adequate to cover estimated potential liabilities.

Pension

Pension Accounting

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

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assets and the discount rate assumptions. These assumptions require significant judgment and a change in any one of them could have a material impact on pension expense reported in our Consolidated Statements of Operations and Consolidated Statements of Comprehensive Income/(Loss), as well as in the assets, liability and equity sections of the Consolidated Balance Sheets.

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

	2015	2014	2013
Expected return on plan assets	6.75%	7.00%	7.00%
Discount rate for pension expense	3.87%	4.89%	4.19%
Discount rate for pension obligation	4.73%	3.87%	4.89%

Return on Plan Assets and Impact on Earnings

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

The expected return on plan assets is based on the plan's long-term asset allocation policy, historical returns for plan assets and overall capital market returns, taking into account current and expected market conditions. The expected return assumption for 2015 was reduced from 7.00% to 6.75% given our new asset allocation targets and updated expected capital markets return assumptions.

Discount Rate

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

For 2015, the discount rate to measure pension expense was 3.87% compared to 4.89% in 2014. The discount rate to measure the pension obligations increased to 4.73% as of January 30, 2016 from 3.87% as of January 31, 2015.

Sensitivity

The sensitivity of pension expense to a plus or minus one-half of one percent of expected return on assets is a decrease or increase in pension expense of approximately \$16 million. An increase in the discount rate of one-half of one percent would increase the 2016 pension expense by approximately \$3 million and a decrease in the discount rate of one-half of one percent would decrease pension expense by approximately \$4 million.

Pension Funding

Funding requirements for our Primary Pension Plan are determined under Employee Retirement Income Security Act of 1974 (ERISA) rules, as amended by the Pension Protection Act of 2006. As a result of the funded status of the Primary Pension Plan, we are not required to make cash contributions in 2016.

Recent Accounting Pronouncements

Refer to Note 4 to the Consolidated Financial Statements.

Cautionary Statement Regarding Forward-Looking Information

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, which reflect our current view of future events and financial performance. Words such as "expect" and similar expressions identify forward-looking statements, which include, but are not limited to, statements regarding sales, gross margin, selling, general and administrative expenses, earnings, cash flows and liquidity. Forward-looking statements are based only on the Company's current assumptions and views of future events and financial performance. They are subject to known and unknown risks and uncertainties, many of which are outside of the Company's control, that may cause the Company's actual results to be materially different from planned or expected results. Those risks and uncertainties include, but are not limited to, general economic conditions, including inflation, recession, unemployment levels, consumer confidence and

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

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

All of our outstanding notes and debentures as of January 30, 2016 are at fixed interest rates and would not be affected by interest rate changes. On June 20, 2014, J. C. Penney Company, Inc., JCP and J. C. Penney Purchasing Corporation (Purchasing) entered into a \$2,350 million senior secured 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 2015, the Company amended the 2014 Credit Facility to increase the Revolving Facility from \$1,850 million to \$2,350 million. In connection with upsizing the Revolving Facility, the Company prepaid and retired the outstanding principal amount of the 2014 Term Loan. Borrowings under the Revolving Facility, to the extent that fluctuating rate loans are used, are affected by interest rate changes. As of January 30, 2016, we had no borrowings outstanding under the Revolving Facility.

In addition, in May 2013, we entered into a \$2.25 billion senior secured term loan facility (2013 Term Loan Facility), which bears interest at a rate of LIBOR plus 5.0%. As of January 30, 2016, we had \$2.194 billion outstanding under the 2013 Term Loan Facility. During the second quarter of 2015, we entered into interest rate swap agreements with notional amounts totaling \$1,250 million to fix a portion of our variable LIBOR-based interest payments. The interest rate swap agreements, which were effective May 7, 2015, have a weighted-average fixed rate of 2.04%, mature on May 7, 2020 and have been designated as cash flow hedges. Accordingly, a 100 basis point increase in LIBOR interest rates would result in additional annual interest expense of \$14 million under the 2013 Term Loan Facility and \$8 million in less annual interest expense under the interest rate swap agreements.

The fair value of long-term debt is estimated by obtaining quotes from brokers or is based on current rates offered for similar debt. As of January 30, 2016, long-term debt, excluding unamortized debt issuance costs and including current maturities, had a carrying value of \$4.8 billion and a fair value of \$4.2 billion. As of January 31, 2015, long-term debt, excluding unamortized debt issuance costs and including current maturities, had a carrying value of \$5.4 billion and a fair value of \$4.8 billion.

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

Item 8. Financial Statements and Supplementary Data

See the Index to Consolidated Financial Statements on Page 56.

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

None.

Item 9A. Controls and Procedures

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

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

Management's Report on Internal Control over Financial Reporting

The management of our Company is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act). The management of our Company has assessed the effectiveness of our Company's internal control over financial reporting as of January 30, 2016. In making this assessment, management used criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control—Integrated Framework (2013)*. Based on its assessment, the management of our Company believes that, as of January 30, 2016, our Company's internal control over financial reporting is effective based on those criteria.

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

There were no changes in our Company's internal control over financial reporting during the fourth quarter ended January 30, 2016, that have materially affected, or are reasonably likely to materially affect, our Company's internal control over financial reporting.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
J. C. Penney Company, Inc.:

We have audited J. C. Penney Company, Inc.'s internal control over financial reporting as of January 30, 2016, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). J. C. Penney Company, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Management's Report on Internal Control Over Financial Reporting." Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

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

In our opinion, J. C. Penney Company, Inc. maintained, in all material respects, effective internal control over financial reporting as of January 30, 2016, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of J. C. Penney Company, Inc. and subsidiaries as of January 30, 2016 and January 31, 2015, and the related consolidated statements of operations, comprehensive income/ (loss), stockholders' equity, and cash flows for each of the years in the three-year period ended January 30, 2016, and our report dated March 16, 2016 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Dallas, Texas
March 16, 2016

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

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

The information required by Item 10 with respect to directors, audit committee, audit committee financial experts and Section 16(a) beneficial ownership reporting compliance is included under the captions "Board Committees–Audit Committee," "Section 16(a) Beneficial Ownership Reporting Compliance" and "Proposal 1 - Election of Directors" in our definitive proxy statement for 2016, which will be filed with the Securities and Exchange Commission pursuant to Regulation 14A and is incorporated herein by reference.

Code of Ethics and Corporate Governance Guidelines

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

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

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

Item 11. Executive Compensation

The information required by Item 11 is included under the captions "Compensation Committee Interlocks and Insider Participation," "Compensation Discussion and Analysis," "Report of the Human Resources and Compensation Committee," "Summary Compensation Table," "Grants of Plan-Based Awards for Fiscal 2015," "Outstanding Equity Awards at Fiscal Year-End 2015," "Option Exercises and Stock Vested for Fiscal 2015," "Pension Benefits," "Nonqualified Deferred Compensation for Fiscal 2015," "Potential Payments and Benefits on Termination of Employment," and "Director Compensation for Fiscal 2015" in our Company's definitive proxy statement for 2016, which will be filed with the Securities and Exchange Commission pursuant to Regulation 14A and is incorporated herein by reference.

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

The information required by Item 12 with respect to beneficial ownership of our Company's common stock is included under the caption "Beneficial Ownership of Common Stock" and with respect to equity compensation plans is included under the caption "Equity Compensation Plan(s) Information" in our Company's definitive proxy statement for 2016, which will be filed with the Securities and Exchange Commission pursuant to Regulation 14A and is incorporated herein by reference.

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

The information required by Item 13 is included under the captions "Policies and Procedures with Respect to Related Person Transactions" and "Board Independence" in our Company's definitive proxy statement for 2016, which will be filed with the Securities and Exchange Commission pursuant to Regulation 14A and is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services

The information required by Item 14 is included under the captions “Audit and Other Fees” and “Audit Committee’s Pre-Approval Policies and Procedures” in our Company’s definitive proxy statement for 2016, which will be filed with the Securities and Exchange Commission pursuant to Regulation 14A and is incorporated herein by reference.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) Documents filed as part of this report:

1. Consolidated Financial Statements:

The Consolidated Financial Statements of J. C. Penney Company, Inc. and subsidiaries are listed in the accompanying "Index to Consolidated Financial Statements" on page 56.

2. Financial Statement Schedules:

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

3. Exhibits:

See separate Exhibit Index beginning on page 102. Each management contract or compensatory plan or arrangement required to be filed as an exhibit to this Annual Report on Form 10-K is specifically identified in the separate Exhibit Index beginning on page 102 and filed with or incorporated by reference in this report.

(b) See separate Exhibit Index beginning on page 102.

(c) Other Financial Statement Schedules. None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

J. C. PENNEY COMPANY, INC.
(Registrant)

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

Date: March 16, 2016

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

<u>Signatures</u>	<u>Title</u>	<u>Date</u>
<u>Myron E. Ullman, III*</u> Myron E. Ullman, III	Chairman of the Board; Director	March 16, 2016
<u>Marvin R. Ellison*</u> Marvin R. Ellison	Chief Executive Officer; Director (principal executive officer)	March 16, 2016
<u>Edward J. Record*</u> Edward J. Record	Executive Vice President and Chief Financial Officer (principal financial officer)	March 16, 2016
<u>/s/ Andrew S. Drexler</u> Andrew S. Drexler	Senior Vice President, Chief Accounting Officer and Controller (principal accounting officer)	March 16, 2016
<u>Colleen C. Barrett*</u> Colleen C. Barrett	Director	March 16, 2016
<u>Thomas J. Engibous*</u> Thomas J. Engibous	Director	March 16, 2016
<u>Amanda Ginsberg*</u> Amanda Ginsberg	Director	March 16, 2016
<u>B. Craig Owens*</u> Craig Owens	Director	March 16, 2016
<u>Leonard H. Roberts*</u> Leonard H. Roberts	Director	March 16, 2016

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Signatures	Title	Date
<u>Stephen I. Sadove*</u> Stephen I. Sadove	Director	March 16, 2016
<u>Javier G. Teruel*</u> Javier G. Teruel	Director	March 16, 2016
<u>R. Gerald Tumer*</u> R. Gerald Tumer	Director	March 16, 2016
<u>Ronald W. Tysoe*</u> Ronald W. Tysoe	Director	March 16, 2016

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

J. C. PENNEY COMPANY, INC.
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
J. C. Penney Company, Inc.:

We have audited the accompanying consolidated balance sheets of J. C. Penney Company, Inc. and subsidiaries as of January 30, 2016 and January 31, 2015, and the related consolidated statements of operations, comprehensive income/ (loss), stockholders' equity, and cash flows for each of the years in the three-year period ended January 30, 2016. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of J. C. Penney Company, Inc. and subsidiaries as of January 30, 2016 and January 31, 2015, and the results of their operations and their cash flows for each of the years in the three-year period ended January 30, 2016, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 3 to the financial statements, the Company has elected to change its method of accounting for pension and postretirement benefits to immediately recognize actuarial gains and losses in its operating results in the year in which they occur, to the extent they exceed 10 percent of the greater of the fair value of plan assets or the plans' projected benefit obligation, referred to as the corridor.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), J. C. Penney Company, Inc.'s internal control over financial reporting as of January 30, 2016, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 16, 2016 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Dallas, Texas
March 16, 2016

CONSOLIDATED STATEMENTS OF OPERATIONS
(In millions, except per share data)

	2015	2014	2013
		As Adjusted	
Total net sales	\$ 12,625	\$ 12,257	\$ 11,859
Cost of goods sold	8,074	7,996	8,367
Gross margin	4,551	4,261	3,492
Operating expenses/(income):			
Selling, general and administrative (SG&A)	3,775	3,993	4,114
Pension	162	(48)	(41)
Depreciation and amortization	616	631	601
Real estate and other, net	3	(148)	(155)
Restructuring and management transition	84	87	215
Total operating expenses	4,640	4,515	4,734
Operating income/(loss)	(89)	(254)	(1,242)
Loss on extinguishment of debt	10	34	114
Net interest expense	405	406	352
Income/(loss) before income taxes	(504)	(694)	(1,708)
Income tax expense/(benefit)	9	23	(430)
Net income/(loss)	\$ (513)	\$ (717)	\$ (1,278)
Earnings/(loss) per share:			
Basic	\$ (1.68)	\$ (2.35)	\$ (5.13)
Diluted	(1.68)	(2.35)	(5.13)
Weighted average shares – basic	305.9	305.2	249.3
Weighted average shares – diluted	305.9	305.2	249.3

See the accompanying notes to the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)

(\$ in millions)	2015	2014	2013
		As Adjusted	
Net income/(loss)	\$ (513)	\$ (717)	\$ (1,278)
Other comprehensive income/(loss), net of tax:			
Real estate investment trusts (REITs)			
Unrealized gain/(loss) ⁽¹⁾	—	—	(1)
Reclassification adjustment for realized (gain)/loss ⁽²⁾	—	—	(16)
Foreign currency translation			
Unrealized gain/(loss) ⁽³⁾	—	(2)	—
Retirement benefit plans			
Net actuarial gain/(loss) arising during the period ⁽⁴⁾	(213)	(293)	404
Prior service credit/(cost) arising during the period ⁽⁵⁾	—	(12)	(4)
Reclassification of net actuarial (gain)/loss from a settlement ⁽⁶⁾	110	—	—
Reclassification for net actuarial (gain)/loss ⁽⁷⁾	31	7	(2)
Reclassification for amortization of prior service (credit)/cost ⁽⁸⁾	2	(1)	(1)
Cash flow hedges			
Gain/(loss) on interest rate swaps ⁽⁹⁾	(23)	—	—
Reclassification for periodic settlements ⁽¹⁰⁾	6	—	—
Deferred tax valuation allowance	(54)	(190)	—
Total other comprehensive income/(loss), net of tax	(141)	(491)	380
Total comprehensive income/(loss), net of tax	\$ (654)	\$ (1,208)	\$ (898)

See the accompanying notes to the Consolidated Financial Statements.

(1) Net of \$1 million in tax in 2013.

(2) Net of \$8 million in tax in 2013 and \$(24) million pre-tax gain recognized in Real estate and other, net in the Consolidated Statement of Operations.

(3) Net of \$1 million in tax in 2014.

(4) Net of \$136 million in tax in 2015, \$186 million in tax in 2014 and \$(255) million in tax in 2013.

(5) Net of \$- million in tax in 2015, \$8 million in tax in 2014 and \$3 million in tax in 2013.

(6) Net of \$(70) million in tax in 2015 and \$180 million of pre-tax amount recognized in Pension in the Consolidated Statement of Operations.

(7) Net of \$(22) million in tax in 2015, \$(5) million in tax in 2014 and \$- million in 2013. Pre-tax amounts of \$53 million in 2015, \$12 million in 2014 and \$(2) million in 2013 were recognized in Pension in the Consolidated Statement of Operations.

(8) Net of \$(1) million of tax in 2015, \$- million of tax in 2014 and \$- million in tax in 2013. Pre-tax amounts of \$8 million in 2015, \$7 million in 2014 and \$7 million in 2013 were recognized in Pension in the Consolidated Statement of Operations. Pre-tax amounts of \$(7) million in 2015, \$(8) million in 2014 and \$(8) million in 2013 were recognized in SG&A in the Consolidated Statement of Operations.

(9) Net of \$15 million of tax in 2015.

(10) Net of \$(4) million of tax in 2015 and \$10 million in pre-tax amount recognized in Net interest expense in the Consolidated Statement of Operations.

CONSOLIDATED BALANCE SHEETS
(In millions, except per share data)

	2015	2014
		As Adjusted
Assets		
Current assets:		
Cash in banks and in transit	\$ 119	\$ 119
Cash short-term investments	781	1,199
Cash and cash equivalents	900	1,318
Merchandise inventory	2,721	2,652
Deferred taxes	231	172
Prepaid expenses and other	166	189
Total current assets	4,018	4,331
Property and equipment	4,816	5,148
Prepaid pension	—	220
Other assets	608	610
Total Assets	\$ 9,442	\$ 10,309
Liabilities and Stockholders' Equity		
Current liabilities:		
Merchandise accounts payable	\$ 925	\$ 997
Other accounts payable and accrued expenses	1,360	1,103
Current portion of capital leases and note payable	26	28
Current maturities of long-term debt	101	28
Total current liabilities	2,412	2,156
Long-term capital leases and note payable	10	38
Long-term debt	4,668	5,227
Deferred taxes	425	363
Other liabilities	618	611
Total Liabilities	8,133	8,395
Stockholders' Equity		
Common stock ⁽¹⁾	153	152
Additional paid-in capital	4,654	4,606
Reinvested earnings/(accumulated deficit)	(3,007)	(2,494)
Accumulated other comprehensive income/(loss)	(491)	(350)
Total Stockholders' Equity	1,309	1,914
Total Liabilities and Stockholders' Equity	\$ 9,442	\$ 10,309

(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 306.1 million and 304.9 million as of January 30, 2016 and January 31, 2015, respectively.

See the accompanying notes to the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

<i>(in millions)</i>	Number of Common Shares	Common Stock	Additional Paid-in Capital	Reinvested Earnings/ (Loss)	Accumulated Other Comprehensive Income/(Loss)	Total Stockholders' Equity
February 2, 2013 - as adjusted	219.3	\$ 110	\$ 3,799	\$ (499)	\$ (239)	\$ 3,171
Net income/(loss)	—	—	—	(1,278)	—	(1,278)
Other comprehensive income/(loss)	—	—	—	—	380	380
Common stock issued	84.0	42	744	—	—	786
Stock-based compensation	1.3	—	28	—	—	28
February 1, 2014 - as adjusted	304.6	\$ 152	\$ 4,571	\$ (1,777)	\$ 141	\$ 3,087
Net income/(loss)	—	—	—	(717)	—	(717)
Other comprehensive income/(loss)	—	—	—	—	(491)	(491)
Stock-based compensation	0.3	—	35	—	—	35
January 31, 2015 - as adjusted	304.9	\$ 152	\$ 4,606	\$ (2,494)	\$ (350)	\$ 1,914
Net income/(loss)	—	—	—	(513)	—	(513)
Other comprehensive income/(loss)	—	—	—	—	(141)	(141)
Stock-based compensation	1.2	1	48	—	—	49
January 30, 2016	306.1	\$ 153	\$ 4,654	\$ (3,007)	\$ (491)	\$ 1,309

See the accompanying notes to the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(\$ in millions)	2015	2014	2013
		As Adjusted	
Cash flows from operating activities			
Net income/(loss)	\$ (513)	\$ (717)	\$ (1,278)
Adjustments to reconcile net income/(loss) to net cash provided by/(used in) operating activities:			
Restructuring and management transition	10	32	132
Asset impairments and other charges	25	39	30
Net gain on sale or redemption of non-operating assets	(9)	(25)	(132)
Net gain on sale of operating assets	(9)	(92)	(17)
Loss on extinguishment of debt	10	34	114
Depreciation and amortization	616	631	601
Benefit plans	127	(78)	(108)
Stock-based compensation	44	33	28
Other comprehensive income tax benefits	—	—	(250)
Deferred taxes	—	3	(149)
Change in cash from:			
Inventory	(69)	283	(594)
Prepaid expenses and other assets	19	(1)	74
Merchandise accounts payable	(72)	49	(214)
Current income taxes	4	(10)	50
Accrued expenses and other	257	58	(101)
Net cash provided by/(used in) operating activities	440	239	(1,814)
Cash flows from investing activities			
Capital expenditures	(320)	(252)	(951)
Proceeds from sale or redemption of non-operating assets	13	35	143
Proceeds from sale of operating assets	11	70	19
Joint venture return of investment	—	5	—
Net cash provided by/(used in) investing activities	(296)	(142)	(789)
Cash flows from financing activities			
Proceeds from short-term borrowings	—	—	850
Payment on short-term borrowings	—	(650)	(200)
Net proceeds from issuance of long-term debt	—	893	2,180
Premium on early retirement of debt	—	(33)	(110)
Payments of capital leases and note payable	(33)	(26)	(29)
Payments of long-term debt	(520)	(412)	(256)
Financing costs	(4)	(65)	(31)
Net proceeds from common stock issued	—	—	786
Proceeds from stock options exercised	—	—	7
Tax withholding payments for vested restricted stock	(5)	(1)	(9)
Net cash provided by/(used in) financing activities	(562)	(294)	3,188
Net increase/(decrease) in cash and cash equivalents	(418)	(197)	585
Cash and cash equivalents at beginning of period	1,318	1,515	930
Cash and cash equivalents at end of period	\$ 900	\$ 1,318	\$ 1,515

See the accompanying notes to the Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation and Consolidation

Nature of Operations

Our Company was founded by James Cash Penney in 1902 and has grown to be a major national retailer, operating 1,021 department stores in 49 states and Puerto Rico, as well as through our Internet website at jcpenny.com. We sell family apparel and footwear, accessories, fine and fashion jewelry, beauty products through Sephora inside JCPenney, and home furnishings. In addition, our department stores provide services, such as styling salon, optical, portrait photography and custom decorating, to customers.

Basis of Presentation and Consolidation

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

We are a holding company whose principal operating subsidiary is J. C. Penney Corporation, Inc. (JCP). JCP was incorporated in Delaware in 1924, and J. C. Penney Company, Inc. was incorporated in Delaware in 2002, when the holding company structure was implemented. The holding company has no direct subsidiaries other than JCP, and has no independent assets or operations.

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

Fiscal Year

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

Fiscal Year	Ended	Weeks
2015	January 30, 2016	52
2014	January 31, 2015	52
2013	February 1, 2014	52

Use of Estimates and Assumptions

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

Reclassifications

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.

2. Significant Accounting Policies

Merchandise and Services Revenue Recognition

Total net sales, which exclude sales taxes and are net of estimated returns, are generally recorded when payment is received and the customer takes possession of the merchandise. Service revenue is recorded at the time the customer receives the benefit of the service, such as salon, portrait, optical or custom decorating. Commissions earned on sales generated by licensed departments are included as a component of total net sales. Shipping and handling fees charged to customers are also included in total net sales with corresponding costs recorded as cost of goods sold. We provide for estimated future returns based primarily on historical return rates and sales levels.

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Based on how we categorized our divisions in 2015, our merchandise mix of total net sales over the last three years was as follows:

	2015	2014	2013
Women's apparel	25%	26%	26%
Men's apparel and accessories	22%	22%	22%
Home	12%	12%	11%
Women's accessories, including Sephora	12%	11%	10%
Children's apparel	10%	10%	11%
Footwear and handbags	8%	8%	9%
Jewelry	6%	6%	6%
Services and other	5%	5%	5%
	100%	100%	100%

Gift Card Revenue Recognition

At the time gift cards are sold, no revenue is recognized; rather, a liability is established for the face amount of the card. The liability remains recorded until the earlier of redemption, escheatment or 60 months. The liability is relieved and revenue is recognized when gift cards are redeemed for merchandise or services. We escheat a portion of unredeemed gift cards according to Delaware escheatment requirements that govern remittance of the cost of the merchandise portion of unredeemed gift cards over five years old. After reflecting the amount escheated, any remaining liability (referred to as breakage) is relieved and recognized as a reduction of SG&A expenses as an offset to the costs of administering the gift card program. Though our gift cards do not expire, it is our historical experience that the likelihood of redemption after 60 months is remote. The liability for gift cards is recorded in other accounts payable and accrued expenses on the Consolidated Balance Sheets.

Customer Loyalty Program

Customers who spend a certain amount with us using our private label card or registered third party credit cards receive JCP Rewards® certificates, redeemable for merchandise or services in our stores the following two months. We estimate the net cost of the rewards that will be redeemed and record this as cost of goods sold as rewards points are accumulated. Other administrative costs of the loyalty program are recorded in SG&A expenses as incurred.

Cost of Goods Sold

Cost of goods sold includes all costs directly related to bringing merchandise to its final selling destination. These costs include the cost of the merchandise (net of discounts or allowances earned), sourcing and procurement costs, buying and brand development costs, including buyers' salaries and related expenses, royalties and design fees, freight costs, warehouse operating expenses, merchandise examination, inspection and testing, store merchandise distribution center expenses, including rent, and shipping and handling costs incurred on sales via the Internet.

Vendor Allowances

We receive vendor support in the form of cash payments or allowances for a variety of reimbursements such as cooperative advertising, markdowns, vendor shipping and packaging compliance, defective merchandise and the purchase of vendor specific fixtures. We have agreements in place with each vendor setting forth the specific conditions for each allowance or payment. Depending on the arrangement, we either recognize the allowance as a reduction of current costs or defer the payment over the period the related merchandise is sold. If the payment is a reimbursement for costs incurred, it is generally offset against those related costs; otherwise, it is treated as a reduction to the cost of merchandise.

Markdown reimbursements related to merchandise that has been sold are negotiated and documented by our buying teams and are credited directly to cost of goods sold in the period received. Vendor allowances received prior to merchandise being sold are deferred and recognized as a reduction of inventory and credited to cost of goods sold based on an inventory turnover rate.

Vendor compliance credits reimburse us for incremental merchandise handling expenses incurred due to a vendor's failure to comply with our established shipping or merchandise preparation requirements. Vendor compliance credits are recorded as a reduction of merchandise handling costs.

Selling, General and Administrative Expenses

SG&A expenses include the following costs, except as related to merchandise buying, sourcing, warehousing or distribution activities: salaries, marketing costs, occupancy and rent expense, utilities and maintenance, pre-opening expenses, costs related

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to information technology, administrative costs related to our home office and district and regional operations, real and personal property and other taxes (excluding income taxes) and credit/debit card fees.

Advertising

Advertising costs, which include newspaper, television, Internet search marketing, radio and other media advertising, are expensed either as incurred or the first time the advertisement occurs. For cooperative advertising programs offered by national brands that require proof of advertising to be provided to the vendor to support the reimbursement of the incurred cost, we offset the allowances against the related advertising expense. Programs that do not require proof of advertising are monitored to ensure that the allowance provided by each vendor is a reimbursement of costs incurred to advertise for that particular vendor's label. Total advertising costs, net of cooperative advertising vendor reimbursements of \$32 million, \$1 million and \$4 million for 2015, 2014 and 2013, respectively, were \$792 million, \$886 million and \$919 million, respectively. In 2015, a change in certain cooperative advertising programs resulted in more vendor reimbursements being recognized as a reduction of our advertising expense rather than offsetting cost of goods sold.

Income Taxes

We account for income taxes using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recorded to reduce the carrying amounts of deferred tax assets unless it is more likely than not such assets will be realized. We recognize accrued interest and penalties related to unrecognized tax benefits in income tax expense in our Consolidated Statements of Operations.

Earnings/(Loss) per Share

Basic earnings/(loss) per share (EPS) is computed by dividing net income/(loss) by the weighted-average number of common shares outstanding during the period. Diluted EPS is computed by dividing net income/(loss) by the weighted-average number of common shares outstanding during the period plus the number of additional common shares that would have been outstanding if the potentially dilutive shares had been issued. Potentially dilutive shares include stock options, unvested restricted stock units and awards and a warrant outstanding during the period, using the treasury stock method. Potentially dilutive shares are excluded from the computations of diluted EPS if their effect would be anti-dilutive.

Cash and Cash Equivalents

Cash and cash equivalents include cash short-term investments that are highly liquid investments with original maturities of three months or less. Cash short-term investments consist primarily of short-term U.S. Treasury money market funds and a portfolio of highly rated bank deposits and are stated at cost, which approximates fair market value due to the short-term maturity. Cash in banks and in transit also include credit card sales transactions that are settled early in the following period.

Merchandise Inventory

Inventories are valued at the lower of cost (using the first-in, first-out or "FIFO" method) or market. For department stores, regional warehouses and store distribution centers, we value inventories using the retail method. Under the retail method, retail values of merchandise groups are converted to a cost basis by applying the specific average cost-to-retail ratio related to each merchandise grouping. For Internet, we use standard cost, representing average vendor cost, to determine lower of cost or market.

Physical inventories are taken on a staggered basis at least once per year at all store and supply chain locations, inventory records are adjusted to reflect actual inventory counts and any resulting shortage (shrinkage) is recognized. Following inventory counts, shrinkage is estimated as a percent of sales, based on the most recent physical inventory, in combination with current events and historical experience. We have loss prevention programs and policies in place that are intended to mitigate shrinkage.

Property and Equipment, Net

(\$ in millions)	Estimated Useful Lives		
	(Years)	2015	2014
Land	N/A	\$ 272	\$ 274
Buildings	50	4,877	4,899
Furniture and equipment	3-20	2,064	2,175
Leasehold improvements ⁽¹⁾		1,244	1,301
Capital leases (equipment)	3-5	116	116
Accumulated depreciation		(3,757)	(3,617)
Property and equipment, net		\$ 4,816	\$ 5,148

(1) Leasehold improvements are depreciated over the shorter of the estimated useful lives of the improvements or the term of the lease, including renewals determined to be reasonably assured.

Property and equipment is stated at cost less accumulated depreciation. Depreciation is computed primarily by using the straight-line method over the estimated useful lives of the related assets.

We expense routine maintenance and repairs when incurred. We capitalize major replacements and improvements. We remove the cost of assets sold or retired and the related accumulated depreciation or amortization from the accounts and include any resulting gain or loss in net income/(loss).

We recognize a liability for the fair value of our conditional asset retirement obligations, which are primarily related to asbestos removal, when incurred if the liability's fair value can be reasonably estimated.

Capitalized Software Costs

We capitalize costs associated with the acquisition or development of major software for internal use in other assets in our Consolidated Balance Sheets and amortize the asset over the expected useful life of the software, generally between three and seven years. We only capitalize subsequent additions, modifications or upgrades to internal-use software to the extent that such changes allow the software to perform a task it previously did not perform. We expense software maintenance and training costs as incurred.

Impairment of Long-Lived and Indefinite-Lived Assets

We evaluate long-lived assets such as store property and equipment and other corporate assets for impairment whenever events or changes in circumstances indicate that the carrying amount of those assets may not be recoverable. Factors considered important that could trigger an impairment review include, but are not limited to, significant underperformance relative to historical or projected future operating results and significant changes in the manner of use of the assets or our overall business strategies. Potential impairment exists if the estimated undiscounted cash flows expected to result from the use of the asset plus any net proceeds expected from disposition of the asset are less than the carrying value of the asset. The amount of the impairment loss represents the excess of the carrying value of the asset over its fair value and is included in Real estate and other, net in the Consolidated Statements of Operations. We estimate fair value based on either a projected discounted cash flow method using a discount rate that is considered commensurate with the risk inherent in our current business model or appraised value, as appropriate. We also take other factors into consideration in estimating the fair value of our stores, such as local market conditions, operating environment, mall performance and other trends.

We assess the recoverability of indefinite-lived intangible assets at least annually during the fourth quarter of our fiscal year or whenever events or changes in circumstances indicate that the carrying amount of the indefinite-lived intangible asset may not be fully recoverable. Examples of a change in events or circumstances include, but are not limited to, a decrease in the market price of the asset, a history of cash flow losses related to the use of the asset or a significant adverse change in the extent or manner in which an asset is being used. We test our indefinite-lived intangible assets utilizing the relief from royalty method to determine the estimated fair value for each indefinite-lived intangible asset. The relief from royalty method estimates our theoretical royalty savings from ownership of the intangible asset. Key assumptions used in this model include discount rates, royalty rates, growth rates, sales projections and terminal value rates.

Leases

We use a consistent lease term when calculating amortization of leasehold improvements, determining straight-line rent expense and determining classification of leases as either operating or capital. For purposes of recognizing incentives, premiums, rent holidays and minimum rental expenses on a straight-line basis over the terms of the leases, we use the date of initial possession to begin amortization, which is generally when we take control of the property. Renewal options determined to be reasonably assured are also included in the lease term. Some leases require additional payments based on sales and are recorded in rent expense when the contingent rent is probable.

Some of our lease agreements contain developer/tenant allowances. Upon receipt of such allowances, we record a deferred rent liability in other liabilities on the Consolidated Balance Sheets. The allowances are then amortized on a straight-line basis over the remaining terms of the corresponding leases as a reduction of rent expense.

Exit or Disposal Activity Costs

Costs associated with exit or disposal activities are recorded at their fair values when a liability has been incurred. Reserves for operating leases are established at the time of closure for the present value of any remaining operating lease obligations (PVOL), net of estimated sublease income. Severance is recorded over the service period required to be rendered in order to receive the termination benefits or, if employees will not be retained to render future service, a reserve is established when communication has occurred to the affected employees. Other exit costs are accrued either at the point of decision or the communication date, depending on the nature of the item.

Retirement-Related Benefits

We recognize the funded status – the difference between the fair value of plan assets and the plan's benefit obligation – of our defined benefit pension and postretirement plans directly on the Consolidated Balance Sheet. Each overfunded plan is recognized as an asset and each underfunded plan is recognized as a liability. We adjust other comprehensive income/(loss) to reflect prior service cost or credits and actuarial gain or loss amounts arising during the period and reclassification adjustments for amounts being recognized as components of net periodic pension/postretirement cost, net of tax. Prior service cost or credits are amortized to net income/(loss) over the average remaining service period, a period of about eight years for the primary plan. Pension related actuarial gains or losses in excess of 10% of the greater of the fair value of plan assets or the plan's projected benefit obligation (the corridor) are recognized annually in the fourth quarter each year (Mark-to-market (MTM) adjustment), and, if applicable, in any interim period in which an interim remeasurement is triggered. See Note 3 for the discussion of the accounting change related to our retirement-related benefits.

We measure the plan assets and obligations annually at the adopted measurement date of January 31 to determine pension expense for the subsequent year. The factors and assumptions affecting the measurement are the characteristics of the population and salary increases, with the most important being the expected return on plan assets and the discount rate for the pension obligation. We use actuarial calculations for the assumptions, which require significant judgment.

Stock-Based Compensation

Stock options are valued primarily using the binomial lattice option pricing model and are granted with an exercise price equal to the closing price of our common stock on the grant date. Time-based and performance-based restricted stock awards are valued using the closing price of our common stock on the grant date. For awards that have market conditions, such as attaining a specified stock price or based on total shareholder return, we use a Monte Carlo simulation model to determine the value of the award. Our current plan does not permit awarding stock options below grant-date market value nor does it allow any repricing subsequent to the date of grant.

Stock options are valued using the following assumptions:

- *Valuation Method.* We estimate the fair value of stock option awards on the date of grant using primarily the binomial lattice model. We believe that the binomial lattice model is a more accurate model for valuing employee stock options since it better reflects the impact of stock price changes on option exercise behavior.
- *Expected Term.* Our expected option term represents the average period that we expect stock options to be outstanding and is determined based on our historical experience, giving consideration to contractual terms, vesting schedules, anticipated stock prices and expected future behavior of option holders.
- *Expected Volatility.* Our expected volatility is based on a blend of the historical volatility of JCPenney stock combined with an estimate of the implied volatility derived from exchange traded options.

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- *Risk-Free Interest Rate.* Our risk-free interest rate is based on zero-coupon U.S. Treasury yields in effect at the date of grant with the same period as the expected option life.
- *Expected Dividend Yield.* The dividend assumption is based on our current expectations about our dividend policy.

Employee stock options and time-based and performance-based restricted stock awards typically vest over periods ranging from one to three years and employee stock options have a maximum term of 10 years. Estimates of forfeitures are incorporated at the grant date and are adjusted if actual results are different from initial estimates. For awards that have performance conditions, the probability of achieving the performance condition is evaluated each reporting period, and if the performance condition is expected to be achieved, the related compensation expense is recorded over the service period. In addition, certain performance-based restricted stock awards may be granted where the number of shares may be increased to the maximum or reduced to the minimum threshold based on the results of the performance metrics in accordance with the terms established at the time of the award. In the event that performance conditions are not achieved and the awards do not vest, compensation expense is reversed. For market based awards, we record expense over the service period, regardless of whether or not the market condition is achieved.

Awards with graded vesting that only have a time vesting requirement and awards that vest entirely at the end of the vesting requirement are expensed on a straight-line basis for the entire award. Expense for awards with graded vesting that incorporate a market or performance requirement is attributed separately based on the vesting for each tranche.

3. Change in Accounting for Retirement-Related Benefits

In 2015, the Company elected to change its method of recognizing pension expense. Previously, for the primary and supplemental pension plans, net actuarial gains or losses in excess of 10% of the greater of the fair value of plan assets or the plans' projected benefit obligation (the corridor) were recognized over the remaining service period of plan participants (eight years for the primary pension plan). Under the Company's new accounting method, the Company recognizes changes in net actuarial gains or losses in excess of the corridor annually in the fourth quarter each year (MTM Adjustment). The remaining components of pension expense, primarily service and interest costs and assumed return on plan assets, will be recorded on a quarterly basis. While the historical policy of recognizing pension expense was considered acceptable, the Company believes that the new policy is preferable as it eliminates the delay in recognition of actuarial gains and losses outside the corridor.

This change has been reported through retrospective application of the new policy to all periods presented. The impacts of all adjustments made to the financial statements are summarized below:

Consolidated Statements of Operations

(\$ in millions, except per share data)	2014			2013		
	Previously Reported	As Adjusted	Effect of Change	Previously Reported	As Adjusted	Effect of Change
Pension	\$ 6	\$ (48)	\$ (54)	\$ 137	\$ (41)	\$ (178)
Income/(loss) before income taxes	(748)	(694)	54	(1,886)	(1,708)	178
Income tax expense/(benefit)	23	23	—	(498)	(430)	68
Net income/(loss)	\$ (771)	\$ (717)	54	\$ (1,388)	(1,278)	\$ 110
Basic earnings/(loss) per common share	\$ (2.53)	\$ (2.35)	\$ 0.18	\$ (5.57)	\$ (5.13)	\$ 0.44
Diluted earnings/(loss) per common share	\$ (2.53)	\$ (2.35)	\$ 0.18	\$ (5.57)	\$ (5.13)	\$ 0.44

Consolidated Statements of Comprehensive Income/(Loss)

(\$ in millions)	2014			2013		
	Previously Reported	As Adjusted	Effect of Change	Previously Reported	As Adjusted	Effect of Change
Net income/(loss)	\$ (771)	\$ (717)	\$ 54	\$ (1,388)	\$ (1,278)	\$ 110
Reclassifications for amortization of net actuarial (gain)/loss	40	7	(33)	108	(2)	(110)
Deferred tax valuation allowance	(169)	(190)	(21)	—	—	—
Total other comprehensive income/(loss), net of tax	(437)	(491)	(54)	490	380	(110)
Total comprehensive income/(loss), net of tax	\$ (1,208)	\$ (1,208)	\$ —	\$ (898)	\$ (898)	\$ —

Consolidated Balance Sheet

(\$ in millions)	2014		
	Previously Reported	As Adjusted	Effect of Change
Reinvested earnings/(accumulated deficit)	\$ (1,779)	\$ (2,494)	\$ (715)
Accumulated other comprehensive income/(loss)	(1,065)	(350)	715

Consolidated Statements of Stockholders' Equity

(\$ in millions)	2014			2013		
	Previously Reported	As Adjusted	Effect of Change	Previously Reported	As Adjusted	Effect of Change
Reinvested earnings/(loss)						
Beginning balance	\$ (1,008)	\$ (1,777)	\$ (769)	\$ 380	\$ (499)	\$ (879)
Net income/(loss)	(771)	(717)	54	(1,388)	(1,278)	110
Ending balance	\$ (1,779)	\$ (2,494)	\$ (715)	\$ (1,008)	\$ (1,777)	\$ (769)
Accumulated other comprehensive income/(loss)						
Beginning balance	\$ (628)	\$ 141	\$ 769	\$ (1,118)	\$ (239)	\$ 879
Other comprehensive income/(loss)	(437)	(491)	(54)	490	380	(110)
Ending balance	\$ (1,065)	\$ (350)	\$ 715	\$ (628)	\$ 141	\$ 769

Consolidated Statements of Cash Flows

(\$ in millions)	2014			2013		
	Previously Reported	As Adjusted	Effect of Change	Previously Reported	As Adjusted	Effect of Change
Cash flows from operating activities:						
Net income/(loss)	\$ (771)	\$ (717)	\$ 54	\$ (1,388)	\$ (1,278)	\$ 110
Benefit plans	(24)	(78)	(54)	70	(108)	(178)
Other comprehensive income tax benefits	—	—	—	(303)	(250)	53
Deferred taxes	\$ 3	\$ 3	\$ —	\$ (164)	\$ (149)	\$ 15

4. Effect of New Accounting Standards

In February 2016, the FASB issued ASC Topic 842, *Leases (Topic 842)*, a replacement of *Leases (Topic 840)*, which will require lessees to recognize most leases on their balance sheets as lease liabilities with corresponding right-of-use assets. While many aspects of lessor accounting would remain the same, the new standard would make some changes, such as eliminating today's real estate-specific guidance. As a globally converged standard, lessees and lessors would be required to classify most leases using a principle generally consistent with that of International Accounting Standards. The standard also would change what would be considered the initial direct costs of a lease. The standard would be effective for annual periods beginning after December 15, 2018 and interim periods within that year and must be adopted by on a modified retrospective method, with elective reliefs, which requires application of the new guidance for all periods presented. We are currently evaluating the effect that adopting this new accounting guidance will have on our financial condition, results of operations or cash flows.

In November 2015, the FASB issued ASU 2015-17, *Income Taxes (Topic 740)*, *Balance Sheet Classification of Deferred Taxes*, which requires all deferred tax assets and liabilities to be classified as noncurrent on the balance sheet instead of separating deferred taxes into current and noncurrent amounts. The new standard will also no longer require allocating valuation allowances between current and noncurrent deferred tax assets because those allowances also will be classified as noncurrent. The guidance is effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods and the guidance can adopt the guidance either prospectively or retrospectively. We do not expect the adoption of this standard to have a material impact on our financial condition, results of operations or cash flows.

In July 2015, the FASB issued ASU 2015-11, *Inventory (Topic 330)*, *Simplifying the Measurement of Inventory*, which simplifies the subsequent measurement of inventory by requiring inventory to be measured at the lower of cost and net realizable value. Under current guidance, net realizable value is one of several calculations an entity needs to make to measure inventory at the lower of cost or market. However, companies will continue to apply their existing impairment models to inventories that are accounted for using last-in first-out (LIFO) and the retail inventory method (RIM). The guidance, which can be early adopted, is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years and the guidance must be applied prospectively after the date of adoption. We do not expect the adoption of this standard to have a material impact on our financial condition, results of operations or cash flows.

In April 2015, the FASB issued ASU 2015-05, *Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40)*, *Customer's Accounting for Fees Paid in a Cloud Computing Arrangement*, which amends its guidance on internal use software to clarify how customers in cloud computing arrangements should determine whether the arrangement includes a software license. The guidance also eliminates the existing requirement for customers to account for software licenses they acquire by analogizing to the guidance on leases. Instead, these arrangements are to be accounted for as licenses of intangible assets. The guidance, which can be early adopted, is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2015. We do not expect the adoption of this standard to have a material impact on our financial condition, results of operations or cash flows.

In April 2015, the FASB Issued ASU 2015-4, *Compensation-Retirement Benefits*, to provide a practical expedient related to the measurement date of defined benefit plan assets and obligations. The practical expedient allows employers with fiscal year-end dates that do not coincide with a calendar month-end (e.g., companies with a 52/53-week fiscal year) to measure pension and post-retirement benefit plan assets and obligations as of the calendar month-end date closest to the fiscal year-end. Companies that choose to apply the expedient are required to adjust the measurement of defined benefit plan assets and obligations for any contributions or significant events (such as a plan amendment, settlement, or curtailment that calls for a remeasurement pursuant to existing requirements) that occur between the month-end measurement date and an entity's fiscal year-end (the "intervening period"). The standard is effective for annual reporting periods beginning after December 15, 2015, including interim periods therein and early adoption is permitted. If elected, the practical expedients must be applied prospectively. We do not expect the adoption of this standard to have a material impact on our financial condition, results of operations or cash flows.

In April 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-03, *Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs* (ASU 2015-03). ASU 2015-03 requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the carrying value of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by ASU 2015-03. The amendments in this ASU are effective retrospectively for fiscal years, and

interim periods within those years, beginning after December 15, 2015. Early adoption is permitted. The Company early adopted ASU 2015-03 retrospectively in its second quarter ended August 1, 2015. As a result of the retrospective adoption, the Company reclassified unamortized debt issuance costs of \$95 million as of January 31, 2015 from Other assets to a reduction in Long-term debt in the Consolidated Balance Sheets. Adoption of this standard did not impact results of operations, retained earnings, or cash flows in the current or previous interim and annual reporting periods.

In August 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-15, *Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosures of Uncertainties about an Entity's Ability to Continue as a Going Concern*. This ASU requires management to evaluate whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued or are available to be issued. This ASU also requires management to disclose certain information depending on the results of the going concern evaluation. The provisions of this ASU are effective for annual periods ending after December 15, 2016, and for interim and annual periods thereafter. Early adoption is permitted. This amendment is applicable to us beginning in the first quarter of 2017. We do not expect the adoption of this standard to have a material impact on our financial condition, results of operations or cash flows.

In June 2014, the FASB issued ASU 2014-12, *Compensation - Stock Compensation*, an amendment to FASB Accounting Standards Codification (ASC) Topic 718, *Accounting for Share-Based Payments When the Terms of an Award Provide that a Performance Target Could be Achieved after the Requisite Service Period*. ASU 2014-12 requires that a performance target that affects vesting, and that could be achieved after the requisite service period, be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant date fair value of the award. This update is effective for annual reporting periods beginning after December 15, 2015, with early adoption permitted. We do not expect the adoption of this standard to have a material impact on our financial condition, results of operations or cash flows.

In May 2014, the FASB issued ASC Topic 606, *Revenue from Contracts with Customers, a replacement of Revenue Recognition (Topic 605)*. The new revenue recognition standard provides a five-step analysis of transactions to determine when and how revenue is recognized. The core principle of the guidance is that a Company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This standard is effective for us beginning in fiscal 2018 and can be adopted by the Company either retrospectively or as a cumulative-effect adjustment as of the date of adoption. We are currently evaluating the effect that adopting this new accounting guidance will have on our financial condition, results of operations or cash flows.

5. Earnings/(Loss) per Share

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

<i>(in millions, except per share data)</i>	2015	2014	2013
Earnings/(loss)			
Net income/(loss)	\$ (513)	\$ (717)	\$ (1,278)
Shares			
Weighted average common shares outstanding (basic shares)	305.9	305.2	249.3
Adjustment for assumed dilution:			
Stock options, restricted stock awards and warrant	—	—	—
Weighted average shares assuming dilution (diluted shares)	305.9	305.2	249.3
EPS			
Basic	\$ (1.68)	\$ (2.35)	\$ (5.13)
Diluted	\$ (1.68)	\$ (2.35)	\$ (5.13)

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

<i>(Shares in millions)</i>	2015	2014	2013
Stock options, restricted stock awards and a warrant	34.1	26.8	24.3

6. Other Assets

(\$ in millions)	2015	2014
Capitalized software, net	\$ 232	\$ 230
Indefinite-lived intangible assets, net ⁽¹⁾	268	268
Realty investments (Note 18)	31	26
Revolving credit facility unamortized costs, net	42	49
Other	35	37
Total	\$ 608	\$ 610

(1) Amounts are net of an accumulated impairment loss of \$9 million which was recorded in 2013 (Note 18) in the line item Real estate and other, net in the Consolidated Statements of Operations.

Our indefinite-lived intangible assets consists of our worldwide rights for the Liz Claiborne® family of trademarks and related intellectual property and our ownership of the U.S. and Puerto Rico rights of the monet® trademarks and related intellectual property. In connection with our annual indefinite-lived intangible assets impairment tests performed during the fourth quarter of 2015, we did not record an impairment for our indefinite-lived intangible assets as the estimated fair values exceeded the carrying values of the underlying assets.

7. Other Accounts Payable and Accrued Expenses

(\$ in millions)	2015	2014
Accrued salaries, vacation and bonus	\$ 326	\$ 212
Customer gift cards	222	217
Taxes other than income taxes	110	75
Occupancy and rent-related	40	54
Interest	88	88
Advertising	76	91
Current portion of workers' compensation and general liability self-insurance	55	56
Restructuring and management transition (Note 17)	46	19
Current portion of retirement plan liabilities (Note 16)	46	17
Capital expenditures	13	12
Unrecognized tax benefits (Note 19)	3	5
Other	335	257
Total	\$ 1,360	\$ 1,103

8. Other Liabilities

(\$ in millions)	2015	2014
Supplemental pension and other postretirement benefit plan liabilities (Note 16)	\$ 138	\$ 185
Long-term portion of workers' compensation and general liability insurance	153	160
Deferred developer/tenant allowances	113	107
Deferred rent liability	91	85
Primary pension plan (Note 16)	40	—
Interest rate swaps (Notes 9 and 10)	28	—
Unrecognized tax benefits (Note 19)	4	8
Restructuring and management transition (Note 17)	5	7
Other	46	59
Total	\$ 618	\$ 611

9. Derivative Financial Instruments

We use derivative financial instruments for hedging and non-trading purposes to manage our exposure to changes in interest rates. Use of derivative financial instruments in hedging programs subjects us to certain risks, such as market and credit risks. Market risk represents the possibility that the value of the derivative instrument will change. In a hedging relationship, the change in the value of the derivative is offset to a great extent by the change in the value of the underlying hedged item. Credit risk related to derivatives represents the possibility that the counterparty will not fulfill the terms of the contract. The notional, or contractual amount of our derivative financial instruments is used to measure interest to be paid or received and does not represent our exposure due to credit risk. Credit risk is monitored through established approval procedures, including setting concentration limits by counterparty, reviewing credit ratings and requiring collateral (generally cash) from the counterparty when appropriate.

When we use derivative financial instruments for the purpose of hedging our exposure to interest rates, the contract terms of a hedged instrument closely mirror those of the hedged item, providing a high degree of risk reduction and correlation. Contracts that are effective at meeting the risk reduction and correlation criteria are recorded using hedge accounting. If a derivative instrument is a hedge, depending on the nature of the hedge, changes in the fair value of the instrument will either be offset against the change in fair value of the hedged assets, liabilities or firm commitments through earnings or be recognized in accumulated other comprehensive income (loss) until the hedged item is recognized in earnings. The ineffective portion of an instrument's change in fair value will be immediately recognized in earnings during the period. Instruments that do not meet the criteria for hedge accounting, or contracts for which we have not elected hedge accounting, are valued at fair value with unrealized gains or losses reported in earnings during the period of change.

Effective May 7, 2015, we entered into interest rate swap agreements with notional amounts totaling \$1,250 million to fix a portion of our variable LIBOR-based interest payments. The interest rate swap agreements have a weighted-average fixed rate of 2.04%, mature on May 7, 2020 and have been designated as cash flow hedges.

The fair value of our interest rate swaps are recorded in the Consolidated Balance Sheets as an asset or a liability (see Note 10). The effective portion of the interest rate swaps' changes in fair values is reported in Accumulated other comprehensive income/(loss) (see Note 13), and the ineffective portion is reported in Net income/(loss). Amounts in Accumulated other comprehensive income/(loss) are reclassified into net income/(loss) when the related interest payments affect earnings. For the periods presented, all of the interest rate swaps were 100% effective.

Information regarding the pre-tax changes in the fair value of our interest rate swaps is as follows:

(\$ in millions)	2015	2014	Line Item in the Financial Statements
Gain/(loss) recognized in other comprehensive income/(loss)	\$ (38)	\$ —	Accumulated other comprehensive income
Gain/(loss) recognized in net income/(loss)	(10)	—	Interest expense

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

(\$ in millions)	Asset Derivatives at Fair Value			Liability Derivatives at Fair Value		
	Balance Sheet Location	2015	2014	Balance Sheet Location	2015	2014
Derivatives designated as hedging instruments:						
Interest rate swaps	N/A	\$ —	\$ —	Other accounts payable and accrued expenses	\$ 2	\$ —
Interest rate swaps	N/A	—	—	Other liabilities	28	—
Total derivatives designated as hedging instruments		\$ —	\$ —		\$ 30	\$ —

10. Fair Value Disclosures

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

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

Cash Flow Hedges Measured on a Recurring Basis

The \$30 million fair value of our cash flow hedges are valued in the market using discounted cash flow techniques which use quoted market interest rates in discounted cash flow calculations which consider the instrument's term, notional amount, discount rate and credit risk. Significant inputs to the derivative valuation for interest rate swaps are observable in the active markets and are classified as Level 2 in the fair value measurement hierarchy.

Other Non-Financial Assets Measured on a non-Recurring Basis

In 2014, assets of 19 underperforming department stores that continued to operate with carrying values of \$32 million were written down to their estimated fair values of \$2 million resulting in impairment charges of \$30 million. Store impairment charges are recorded in the line item Real estate and other, net in the Consolidated Statements of Operations. Key assumptions used to determine fair values were future cash flows including, among other things, expected future operating performance and changes in economic conditions as well as other market information obtained from brokers. Significant inputs to the valuing store related assets are classified as Level 3 in the fair value measurement hierarchy.

Other Financial Instruments

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

(\$ in millions)	As of January 30, 2016		As of January 31, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Total debt, excluding unamortized debt issuance costs, capital leases and notes payable	\$ 4,830	\$ 4,248	\$ 5,350	\$ 4,834

The fair value of long-term debt is estimated by obtaining quotes from brokers or is based on current rates offered for similar debt. As of January 30, 2016 and January 31, 2015, the fair values of cash and cash equivalents, accounts payable and short-term borrowings approximate their carrying values due to the short-term nature of these instruments. In addition, the fair values of the capital lease commitments and the note payable approximate their carrying values. These items have been excluded from the table above.

Concentrations of Credit Risk

We have no significant concentrations of credit risk.

11. Credit Facility

The Company has a \$2,350 million senior secured asset-based credit facility (2014 Credit Facility), comprised of a \$2,350 million revolving line of credit (Revolving Facility). During 2015, the Company amended the 2014 Credit Facility to increase the Revolving Facility from \$1,850 million to \$2,350 million, and in connection with upsizing the Revolving Facility, the Company prepaid and retired the \$494 million outstanding principal amount of the \$500 million term loan under the 2014 Credit Facility. The 2014 Credit Facility matures on June 20, 2019.

The 2014 Credit Facility 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 is limited to a maximum of 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 lesser of 10% of the borrowing base or \$200 million, subject to a minimum threshold requirement of \$150 million.

As of the end of 2015, we had no borrowings outstanding under the Revolving Facility. In addition, as of the end of 2015, we had \$1,848 million available for borrowing, of which \$280 million was reserved for outstanding standby and import letters of credit, none of which have been drawn on, leaving \$1,568 million for future borrowings. The applicable rate for standby and import letters of credit was 2.50% and 1.25%, respectively, while the required commitment fee was 0.375% for the unused portion of the Revolving Facility.

12. Long-Term Debt

(\$ in millions)	2015	2014
Issue:		
5.65% Senior Notes Due 2020 ⁽¹⁾⁽²⁾	\$ 400	\$ 400
5.75% Senior Notes Due 2018 ⁽¹⁾⁽³⁾	300	300
6.375% Senior Notes Due 2036 ⁽¹⁾⁽⁴⁾	400	400
6.9% Notes Due 2026	2	2
7.125% Debentures Due 2023	10	10
7.4% Debentures Due 2037 ⁽⁵⁾	326	326
7.625% Notes Due 2097	500	500
7.65% Debentures Due 2016	78	78
7.95% Debentures Due 2017	220	220
8.125% Senior Notes Due 2019 ⁽⁶⁾	400	400
2013 Term Loan Facility ⁽⁷⁾	2,194	2,216
2014 Term Loan ⁽⁸⁾	—	498
Total debt, excluding unamortized debt issuance costs, capital leases and note payable	4,830	5,350
Unamortized debt issuance costs	(61)	(95)
Total debt, excluding capital leases and note payable	4,769	5,255
Less: current maturities	101	28
Total long-term debt, excluding capital leases and note payable	\$ 4,668	\$ 5,227
Weighted-average interest rate at year end	6.5%	6.4%
Weighted-average maturity (in years)	13 years	

(1) These debt issuances contain a change of control provision that would obligate us, at the holders' option, to repurchase the debt at a price of 101%. These provisions trigger if there were a beneficial ownership change of 50% or more of our common stock.

(2) \$4 million and \$5 million of unamortized debt issue costs in 2015 and 2014, respectively.

(3) \$1 million and \$1 million of unamortized debt issue costs in 2015 and 2014, respectively.

(4) \$6 million and \$7 million of unamortized debt issue costs in 2015 and 2014, respectively.

(5) \$1 million and \$1 million of unamortized debt issue costs in 2015 and 2014, respectively.

(6) \$8 million and \$10 million of unamortized debt issue costs in 2015 and 2014, respectively.

(7) \$41 million and \$58 million of unamortized debt issue costs in 2015 and 2014, respectively.

(8) \$13 million of unamortized debt issue costs in 2014.

2014 Debt Issuance and Tender Offers

In September 2014, we issued \$400 million aggregate principal amount of 8.125% Senior Notes due 2019 and used the majority of the \$393 million of proceeds from the offering, net of underwriting discounts, to pay the tender consideration and related transaction fees and expenses for our contemporaneous cash tender offers (2014 Tender Offers) to purchase approximately \$327 million aggregate principal amount of the three outstanding series of debt securities described below (collectively, the Securities).

Title of Security	Principal Amount Outstanding Prior to 2014 Tender Offers (\$ in millions)	Tender Premium ⁽¹⁾	Principal Amount Tendered (\$ in millions)	Principal Amount Accepted for Purchase (\$ in millions)	Principal Amount Outstanding After the 2014 Tender Offers (\$ in millions)
6.875% Medium-Term Notes due 2015	\$ 200	\$ 67.50	\$ 140	\$ 140	\$ 60
7.65% Debentures due 2016	200	105.00	122	122	78
7.95% Debentures due 2017	285	97.50	194	65	220
Total	\$ 685		\$ 456	\$ 327	\$ 358

(1) Per \$1,000 principal amount of Securities.

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We paid approximately \$362 million aggregate consideration, including \$6 million of accrued interest, for the accepted Securities in October 2014. The 2014 Tender Offers resulted in a loss on extinguishment of debt of \$30 million which includes the premium paid over face value of the accepted Securities of \$29 million and reacquisition costs of \$1 million.

2014 Debt Defeasance

In October 2014, subsequent to the completion of the 2014 Tender Offers, we deposited approximately \$64 million with Wilmington Trust, National Association, as Trustee under the Indenture with respect to our 6.875% Medium-Term Notes due 2015 (2015 Notes), to effect a legal defeasance of the remaining outstanding principal amount of 2015 Notes. As a result of depositing funds with the Trustee sufficient to make all payments of interest and principal on the outstanding 2015 Notes through October 15, 2015, the stated maturity of the 2015 Notes, the Company has satisfied and discharged all of its obligations under the terms of the 2015 Notes and with respect to the 2015 Notes under the Indenture. The defeasance resulted in a loss on extinguishment of debt of \$4 million which represents the portion of the deposited funds for future interest payments on the 2015 Notes.

2013 Term Loan Facility

In 2013, JCP entered into a \$2.25 billion five-year senior secured term loan facility (2013 Term Loan Facility). The 2013 Term Loan Facility is guaranteed by J. C. Penney Company, Inc. and certain subsidiaries of JCP, and is secured by mortgages on certain real estate of JCP and the guarantors, in addition to substantially all other assets of JCP and the guarantors. The 2013 Term Loan Facility bears interest at a rate of LIBOR plus 5.0%. We are required to make quarterly repayments in a principal amount equal to \$5.625 million during the five-year term, subject to certain reductions for mandatory and optional prepayments.

Scheduled Annual Principal Payments on Long-Term Debt, Excluding Capital Leases and Note Payable

(\$ in millions)

2016	\$	101
2017		243
2018		2,449
2019		400
2020		400
Thereafter		1,237
Total	\$	4,830

13. Stockholders' Equity

Accumulated Other Comprehensive Income/(Loss)

The following table shows the changes in accumulated other comprehensive income/(loss) balances for 2015 and 2014:

<i>(\$ in millions)</i>	Net Actuarial Gain/(Loss)	Prior Service Credit/(Cost)	Foreign Currency Translation	Gain/(Loss) on Cash Flow Hedges	Accumulated Other Comprehensive Income/(Loss)
February 1, 2014	\$ 160	\$ (19)	\$ —	\$ —	\$ 141
Current period change	(468)	(21)	(2)	—	(491)
January 31, 2015	\$ (308)	\$ (40)	\$ (2)	\$ —	\$ (350)
Current period change	(115)	2	—	(28)	(141)
January 30, 2016	\$ (423)	\$ (38)	\$ (2)	\$ (28)	\$ (491)

Common Stock

On a combined basis, our 401(k) savings plan, including our employee stock ownership plan (ESOP), held approximately 14 million shares, or approximately 4.7% of outstanding Company common stock, at January 30, 2016. Under our 2013 senior secured term loan, we are subject to restrictive covenants regarding our ability to pay cash dividends.

Issuance of Common Stock

On October 1, 2013, we issued 84 million shares of common stock with a par value of \$0.50 per share for \$9.65 per share for total net proceeds of \$786 million after \$24 million of fees.

Preferred Stock

We have authorized 25 million shares of preferred stock; no shares of preferred stock were issued and outstanding as of January 30, 2016 or January 31, 2015.

Stock Warrant

On June 13, 2011, prior to his employment, we entered into a warrant purchase agreement with Ronald B. Johnson pursuant to which Mr. Johnson made a personal investment in the Company by purchasing a warrant to acquire approximately 7.3 million shares of J. C. Penney Company, Inc. common stock for a purchase price of approximately \$50 million at a mutually determined fair value of \$6.89 per share. The warrant has an exercise price of \$29.92 per share, subject to customary adjustments resulting from a stock split, reverse stock split, or other extraordinary distribution with respect to J. C. Penney Company, Inc. common stock. The warrant has a term of seven and one-half years and was initially exercisable after the sixth anniversary, or June 13, 2017; however, the warrant became immediately exercisable upon the termination of Mr. Johnson's employment with us in April 2013. The warrant is also subject to transfer restrictions. The proceeds from the sale of the warrant were recorded as additional paid-in capital.

Stockholders' Rights Agreement

As authorized by our Company's Board of Directors (the Board), on January 27, 2014, the Company entered into an Amended and Restated Rights Agreement (Amended Rights Agreement) with Computershare Inc., as Rights Agent (Rights Agent), amending, restating and replacing the Rights Agreement, dated as of August 22, 2013 (Original Rights Agreement), between the Company and the Rights Agent. Pursuant to the terms of the Original Rights Agreement, one preferred stock purchase right (a Right) was attached to each outstanding share of Common Stock of \$0.50 par value of the Company (Common Stock) held by holders of record as of the close of business on September 3, 2013. The Company has issued one Right in respect of each new share of Common Stock issued since the record date. The Rights, registered on August 23, 2013, trade with and are inseparable from our Common Stock and will not be evidenced by separate certificates unless they become exercisable.

The purpose of the Amended Rights Agreement is to diminish the risk that the Company's ability to use its net operating losses and other tax assets to reduce potential future federal income tax obligations would become subject to limitations by reason of the Company's experiencing an "ownership change" as defined under Section 382 of the Internal Revenue Code of 1986, as amended (the Code). Ownership changes under Section 382 generally relate to the cumulative change in ownership among stockholders with an ownership interest of 5% or more (as determined under Section 382's rules) over a rolling three year period. The Amended Rights Agreement is intended to reduce the likelihood of an ownership change under Section 382 by deterring any person or group from acquiring beneficial ownership of 4.9% or more of the outstanding Common Stock. The amendments to the Original Rights Agreement also extended the expiration date of the Rights from August 20, 2014 to January

26, 2017 and amended certain other provisions, including the definition of "beneficial ownership" to include terms appropriate for the purpose of preserving tax benefits.

Each Right entitles its holder to purchase from the Company 1/1000th of a share of a newly authorized series of participating preferred stock at an exercise price of \$55.00, subject to adjustment in accordance with the terms of the Amended Rights Agreement, once the Rights become exercisable. In general terms, under the Amended Rights Agreement, the Rights become exercisable if any person or group acquires 4.9% or more of the Common Stock or, in the case of any person or group that owned 4.9% or more of the Common Stock as of January 27, 2014, upon the acquisition of any additional shares by such person or group. In addition, the Company, its subsidiaries, employee benefit plans of the Company or any of its subsidiaries, and any entity holding Common Stock for or pursuant to the terms of any such plan, are excepted. Upon exercise of the Right in accordance with the Amended Rights Agreement, the holder would be able to purchase a number of shares of Common Stock from the Company having an aggregate market value (as defined in the Amended Rights Agreement) equal to twice the then-current exercise price for an amount in cash equal to the then-current exercise price. The Rights will not prevent an ownership change from occurring under Section 382 of the Code or a takeover of the Company, but may cause substantial dilution to a person that acquires 4.9% or more of our Common Stock.

14. 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. 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 January 30, 2016, a maximum of 11.5 million shares of stock were available for future grant under the 2014 Plan.

Our stock option and restricted stock award grants have averaged about 2.3% of outstanding stock over the past three years. Authorized shares of the Company's common stock are used to settle the exercise of stock options, granting of restricted shares and vesting of restricted stock units.

Stock-based Compensation Cost

The components of total stock-based compensation costs are as follows:

(\$ in millions)	2015	2014	2013
Stock awards	\$ 32	\$ 20	\$ 14
Stock options	12	13	14
Total stock-based compensation ⁽¹⁾	\$ 44	\$ 33	\$ 28
Total income tax benefit recognized for stock-based compensation arrangements	\$ —	\$ —	\$ —

(1) Excludes \$9 million, \$3 million and \$18 million for 2015, 2014 and 2013, respectively, of stock-based compensation costs reported in restructuring and management transition charges (Note 17).

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Stock Options

The following table summarizes stock option activity during the year ended January 30, 2016:

	<i>Shares (in thousands)</i>	Weighted - Average Exercise Price Per Share	Weighted - Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (\$ in millions)⁽¹⁾
Outstanding at January 31, 2015	14,575	\$ 32		
Granted	5,119	8		
Exercised	(4)	8		
Forfeited/canceled	(3,594)	32		
Outstanding at January 30, 2016	16,096	24	5.2	\$ 0.1
Exercisable at January 30, 2016	9,170	36	2.8	\$ —

⁽¹⁾ The intrinsic value of a stock option is the amount by which the market value of the underlying stock exceeds the exercise price of the option at year end.

Cash proceeds, tax benefits and intrinsic value related to total stock options exercised are provided in the following table:

<i>(\$ in millions)</i>	2015	2014	2013
Proceeds from stock options exercised	\$ —	\$ —	\$ 7
Intrinsic value of stock options exercised	—	—	2
Tax benefit related to stock-based compensation	—	—	—
Excess tax benefits realized on stock-based compensation	—	—	—

As of January 30, 2016, we had \$11 million of unrecognized and unearned compensation expense, net of estimated forfeitures, for stock options not yet vested, which will be recognized as expense over the remaining weighted-average vesting period of approximately two years.

Our weighted-average fair value of stock options at grant date was \$3.48 in 2015, \$3.78 in 2014 and \$7.15 in 2013. We primarily used the binomial lattice valuation model in 2015 and 2013 and the Monte Carlo simulation model in 2014 to determine the fair value of the stock options granted using the following assumptions:

	2015	2014	2013
Weighted-average expected option term	4.6 years	4.1 years	4.3 years
Weighted-average expected volatility	51.46%	60.00%	62.00%
Weighted-average risk-free interest rate	1.50%	1.60%	0.64%
Weighted-average expected dividend yield ⁽¹⁾	—%	—%	—%
Expected dividend yield range ⁽¹⁾	—%	—%	—%

⁽¹⁾ Following the May 1, 2012 payment, we discontinued the quarterly \$0.20 per share dividend.

Stock Awards

The following table summarizes our non-vested stock awards activity during the year ended January 30, 2016:

	Time-Based Stock Awards		Performance-Based Stock Awards	
<i>(shares in thousands)</i>	Number of Units	Weighted-Average Grant Date Fair Value	Number of Units	Weighted-Average Grant Date Fair Value
Non-vested at January 31, 2015	6,769	\$ 10	533	\$ 7
Granted	3,429	8	2,403	8
Vested	(1,728)	16	(278)	8
Forfeited/canceled	(772)	9	(101)	8
Non-vested at January 30, 2016	7,698	9	2,557	7

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As of January 30, 2016, we had \$50 million of unrecognized compensation expense related to unearned employee stock awards, which will be recognized over the remaining weighted-average vesting period of approximately two years. The aggregate market value of shares vested during 2015, 2014 and 2013 was \$16 million, \$4 million and \$25 million, respectively, compared to an aggregate grant date fair value of \$27 million, \$9 million and \$42 million, respectively.

In addition to the grants above, on March 19, 2015, we granted approximately 2.5 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 \$15.54 per phantom unit. The fair value of the awards is remeasured at each reporting period and was \$7.26 per share as of January 30, 2016. 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 and Other liabilities in our Consolidated Balance Sheets, of \$17 million as of January 30, 2016. Awards granted include approximately 154,000 fully vested RSUs to directors during 2015 with a fair value of \$8.64 per RSU award.

15. Leases and Note Payable

We conduct a major part of our operations from leased premises that include retail stores, store distribution centers, warehouses, offices and other facilities. Almost all leases will expire during the next 20 years; however, most leases will be renewed, primarily through an option exercise, or replaced by leases on other premises. We also lease data processing equipment and other personal property under operating leases of primarily three to five years. Rent expense, net of sublease income, was as follows:

(\$ in millions)	2015	2014	2013
Real property base rent and straight-lined step rent expense	\$ 221	\$ 233	\$ 237
Real property contingent rent expense (based on sales)	7	8	5
Personal property rent expense	39	53	65
Total rent expense	\$ 267	\$ 294	\$ 307
Less: sublease income ⁽¹⁾	(11)	(13)	(16)
Net rent expense	\$ 256	\$ 281	\$ 291

(1) Sublease income is reported in Real estate and other, net.

As of January 30, 2016, future minimum lease payments for non-cancelable operating leases, including lease renewals determined to be reasonably assured and capital leases, including our note payable, were as follows:

(\$ in millions)	Operating Leases
2016	\$ 227
2017	200
2018	169
2019	146
2020	129
Thereafter	1,816
Less: sublease income	(27)
Total minimum lease payments	\$ 2,660

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<i>(\$ in millions)</i>	Capital Leases and Note Payable	
2016	\$	27
2017		10
2018		—
2019		—
2020		—
Thereafter		—
Less: sublease income		—
Total minimum lease payments		37
Less: amounts representing interest		(1)
Present value of net minimum lease obligations	\$	36

16. Retirement Benefit Plans

We provide retirement pension benefits, postretirement health and welfare benefits, as well as 401(k) savings, profit-sharing and stock ownership plan benefits to various segments of our workforce. Retirement benefits are an important part of our total compensation and benefits program designed to retain and attract qualified, talented employees. Pension benefits are provided through defined benefit pension plans consisting of a non-contributory qualified pension plan (Primary Pension Plan) and, for certain management employees, non-contributory supplemental retirement plans, including a 1997 voluntary early retirement plan. Retirement and other benefits include:

Defined Benefit Pension Plans

Primary Pension Plan – funded

Supplemental retirement plans – unfunded

Other Benefit Plans

Postretirement benefits – medical and dental

Defined contribution plans:

401(k) savings, profit-sharing and stock ownership plan

Deferred compensation plan

Defined Benefit Pension Plans

Primary Pension Plan — Funded

The Primary Pension Plan is a funded non-contributory qualified pension plan, initiated in 1966 and closed to new entrants on January 1, 2007. The plan is funded by Company contributions to a trust fund, which are held for the sole benefit of participants and beneficiaries.

Supplemental Retirement Plans — Unfunded

We have unfunded supplemental retirement plans, which provide retirement benefits to certain management employees. We pay ongoing benefits from operating cash flow and cash investments. The plans are a Supplemental Retirement Program and a Benefit Restoration Plan. Participation in the Supplemental Retirement Program is limited to employees who were annual incentive-eligible management employees as of December 31, 1995. Benefits for these plans are based on length of service and final average compensation. The Benefit Restoration Plan is intended to make up benefits that could not be paid by the Primary Pension Plan due to governmental limits on the amount of benefits and the level of pay considered in the calculation of benefits. The Supplemental Retirement Program is a non-qualified plan that was designed to allow eligible management employees to retire at age 60 with retirement income comparable to the age 65 benefit provided under the Primary Pension Plan and Benefit Restoration Plan. In addition, the Supplemental Retirement Program offers participants who leave between ages 60 and 62 benefits equal to the estimated social security benefits payable at age 62. The Supplemental Retirement Program also continues Company-paid term life insurance at a declining rate until it is phased out at age 70. Employee-paid term life insurance through age 65 is continued under a separate plan (Supplemental Term Life Insurance Plan for Management Profit-Sharing Employees).

Primary Pension Plan Lump-Sum Payment Offer and Annuity Contract Purchase

In August 2015, as a result of a plan amendment, we offered approximately 31,000 retirees and beneficiaries in the Primary Pension Plan who commenced their benefit between January 1, 2000 and August 31, 2012 the option to receive a lump-sum settlement payment. In addition, we offered approximately 8,000 participants in the Primary Pension Plan who separated from service and had a deferred vested benefit as of August 31, 2012 the option to receive a lump-sum settlement payment. Approximately 12,000 retirees and beneficiaries elected to receive voluntary lump-sum payments to settle the Primary Pension Plan's obligation to them. In addition, approximately 1,900 former employees having deferred vested benefits elected to receive lump-sums. The lump-sum settlement payments totaling \$717 million were made by the Company on November 5, 2015 using assets from the Primary Pension Plan.

On December 7, 2015, the Company completed the purchase of a group annuity contract that transferred to The Prudential Insurance Company of America the pension benefit obligation of approximately 18,000 retirees totaling \$838 million.

Actuarial loss of \$180 million was recognized as settlement expense as a result of the lump-sum offer payment and the purchase of the group annuity contract.

Pension Expense/(Income) for Defined Benefit Pension Plans

The components of net periodic benefit expense/(income) for our Primary Pension Plan and our non-contributory supplemental pension plans are as follows:

(\$ in millions)

Primary Pension Plan	2015	2014	2013
Service cost	\$ 69	\$ 61	\$ 78
Interest cost	196	211	204
Expected return on plan assets	(357)	(348)	(340)
Actuarial loss/(gain)	52	—	—
Amortization of prior service cost/(credit)	8	7	6
Settlement expense	180	—	—
Other	6	—	—
Loss/(gain) on transfer of benefits	—	51	—
Net periodic benefit expense/(income)	<u>\$ 154</u>	<u>\$ (18)</u>	<u>\$ (52)</u>

Supplemental Pension Plans			
Service cost	\$ —	\$ —	\$ —
Interest cost	7	9	12
Actuarial loss/(gain)	1	12	(2)
Amortization of prior service cost/(credit)	—	—	1
Loss/(gain) on transfer of benefits	—	(51)	—
Net periodic benefit expense/(income)	<u>\$ 8</u>	<u>\$ (30)</u>	<u>\$ 11</u>

Primary and Supplemental Pension Plans Total			
Service cost	\$ 69	\$ 61	\$ 78
Interest cost	203	220	216
Expected return on plan assets	(357)	(348)	(340)
Amortization of actuarial loss/(gain)	53	12	(2)
Amortization of prior service cost/(credit)	8	7	7
Settlement expense	180	—	—
Other	6	—	—
Loss/(gain) on transfer of benefits	—	—	—
Net periodic benefit expense/(income)	<u>\$ 162</u>	<u>\$ (48)</u>	<u>\$ (41)</u>

The defined benefit plan pension expense shown in the above table is included as a separate line item in the Consolidated Statements of Operations.

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, it did result in a gain of \$51 million for our supplemental pension plans and loss of \$51 million for our Primary Pension Plan.

Assumptions

The weighted-average actuarial assumptions used to determine expense were as follows:

	2015	2014	2013
Expected return on plan assets	6.75%	7.00%	7.00%
Discount rate	3.87%	4.89%	4.19%
Salary increase	3.5%	3.5%	4.7%

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

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

The salary progression rate to measure pension expense was based on age ranges and projected forward.

Funded Status

As of the end of 2015, the funded status of the Primary Pension Plan was 99%. The Primary Benefit Obligation (PBO) is the present value of benefits earned to date by plan participants, including the effect of assumed future salary increases. Under the Employee Retirement Income Security Act of 1974 (ERISA), the funded status of the plan exceeded 100% as of December 31, 2015 and 2014, the qualified pension plan's year end.

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The following table provides a reconciliation of benefit obligations, plan assets and the funded status of the Primary Pension Plan and supplemental pension plans:

(\$ in millions)	Primary Pension Plan		Supplemental Plans	
	2015	2014	2015	2014
Change in PBO				
Beginning balance	\$ 5,254	\$ 4,477	\$ 191	\$ 219
Service cost	69	61	—	—
Interest cost	196	211	7	9
Amendments	—	20	—	—
Settlements	(1,555)	—	—	—
Transfer of benefits	—	56	—	(56)
Actuarial loss/(gain)	(247)	818	(3)	39
Benefits (paid)	(390)	(389)	(19)	(20)
Balance at measurement date	<u>\$ 3,327</u>	<u>\$ 5,254</u>	<u>\$ 176</u>	<u>\$ 191</u>
Change in fair value of plan assets				
Beginning balance	\$ 5,474	\$ 5,140	\$ —	\$ —
Company contributions	—	—	19	20
Actual return on assets ⁽¹⁾	(242)	723	—	—
Settlements	(1,555)	—	—	—
Benefits (paid)	(390)	(389)	(19)	(20)
Balance at measurement date	<u>\$ 3,287</u>	<u>\$ 5,474</u>	<u>\$ —</u>	<u>\$ —</u>
Funded status of the plan	<u>\$ (40) ⁽²⁾</u>	<u>\$ 220 ⁽²⁾</u>	<u>\$ (176) ⁽³⁾</u>	<u>\$ (191) ⁽³⁾</u>

(1) Includes plan administrative expenses.

(2) \$40 million in 2015 is included in Other liabilities and \$220 million in 2014 is presented as Prepaid pension in the Consolidated Balance Sheets.

(3) \$46 million in 2015 and \$16 million in 2014 were included in Other accounts payable and accrued expenses on the Consolidated Balance Sheets, and the remaining amounts were included in Other liabilities.

In 2015, the funded status of the Primary Pension Plan decreased by \$260 million primarily due to the performance of plan assets. The actual one-year return on pension plan assets at the measurement date was a negative 4.7% in 2015, bringing the annualized return since inception of the plan to 8.8%.

The following pre-tax amounts were recognized in Accumulated other comprehensive income/(loss) in the Consolidated Balance Sheets as of the end of 2015 and 2014:

(\$ in millions)	Primary Pension Plan		Supplemental Plans	
	2015	2014	2015	2014
Net actuarial loss/(gain)	\$ 333	\$ 213	\$ 13	\$ 17
Prior service cost/(credit)	57	65	(4)	(4)
Total	<u>\$ 390 ⁽¹⁾</u>	<u>\$ 278</u>	<u>\$ 9</u>	<u>\$ 13</u>

(1) In 2016, approximately \$8 million for the Primary Pension Plan is expected to be amortized from Accumulated other comprehensive income/(loss) into net periodic benefit expense/(income) included in Pension in the Consolidated Statement of Operations.

Assumptions to Determine Obligations

The weighted-average actuarial assumptions used to determine benefit obligations for each of the years below were as follows:

	2015	2014	2013
Discount rate	4.73%	3.87%	4.89%
Salary progression rate	3.9%	3.5%	3.5%

Accumulated Benefit Obligation (ABO)

The ABO is the present value of benefits earned to date, assuming no future salary growth. The ABO for our Primary Pension Plan was \$3.1 billion and \$4.9 billion as of the end of 2015 and 2014, respectively. At the end of 2015, plan assets of \$3.3 billion for the Primary Pension Plan were above the ABO. The ABO for our unfunded supplemental pension plans was \$153 million and \$166 million as of the end of 2015 and 2014, respectively.

Primary Pension Plan Asset Allocation

The target allocation ranges for each asset class as of the end of 2015 and the fair value of each asset class as a percent of the total fair value of pension plan assets were as follows:

Asset Class	2015 Target Allocation Ranges	Plan Assets	
		2015	2014
Equity	15% - 35%	16%	29%
Fixed income	50% - 60%	54%	58%
Real estate, cash and other investments	20% - 40%	30%	13%
Total		100%	100%

Asset Allocation Strategy

In 2009, we began implementing a liability-driven investment (LDI) strategy to lower the plan's volatility risk and minimize the impact of interest rate changes on the plan funded status. The implementation of the LDI strategy is phased in over time by reallocating the plan's assets more towards fixed income investments (i.e., debt securities) that are more closely matched in terms of duration to the plan liability.

The plan's asset portfolio is actively managed and primarily invested in fixed income balanced with investments in equity securities and other asset classes to maintain an efficient risk/return diversification profile. The risk of loss in the plan's equity portfolio is mitigated by investing in a broad range of equity types. Equity diversification includes large-capitalization and small-capitalization companies, growth-oriented and value-oriented investments and U.S. and non-U.S. securities. Investment types, including high-yield debt securities, illiquid assets such as real estate, the use of derivatives and Company securities are set forth in written guidelines established for each investment manager and monitored by the plan's management team. The plan's asset allocation policy is designed to meet the plan's future pension benefit obligations. Under the policy, asset classes are periodically reviewed and rebalanced as necessary, to ensure that the mix continues to be appropriate relative to established targets and ranges.

We have an internal Benefit Plans Investment Committee (BPIC), which consists of senior executives who have established a review process of asset allocation and investment strategies and oversee risk management practices associated with the management of the plan's assets. Key risk management practices include having an established and broad decision-making framework in place, focused on long-term plan objectives. This framework consists of the BPIC and various third parties, including investment managers, an investment consultant, an actuary and a trustee/custodian. The funded status of the plan is monitored on a continuous basis, including quarterly reviews with updated market and liability information. Actual asset allocations are monitored monthly and rebalancing actions are executed at least quarterly, if needed. To manage the risk associated with an actively managed portfolio, the plan's management team reviews each manager's portfolio on a quarterly basis and has written manager guidelines in place, which are adjusted as necessary to ensure appropriate diversification levels. Also, annual audits of the investment managers are conducted by independent auditors. Finally, to minimize operational risk, we utilize a master custodian for all plan assets, and each investment manager reconciles its account with the custodian at least quarterly.

Fair Value of Primary Pension Plan Assets

The tables below provide the fair values of the Primary Pension Plan's assets as of the end of 2015 and 2014, by major class of asset.

(\$ in millions)	Investments at Fair Value at January 30, 2016			
	Level 1 ⁽¹⁾	Level 2 ⁽¹⁾	Level 3	Total
Assets				
Cash	\$ 86	\$ —	\$ —	\$ 86
Common collective trusts	—	427	—	427
Cash and cash equivalents total	86	427	—	513
Common collective trusts – domestic	—	—	—	—
Common collective trusts – international	—	166	—	166
Equity securities – domestic	192	—	—	192
Equity securities – international	89	—	—	89
Private equity	—	—	248	248
Equity securities total	281	166	248	695
Common collective trusts	—	676	—	676
Corporate bonds	—	771	5	776
Swaps	—	787	—	787
Government securities	—	230	—	230
Corporate loans	—	—	—	—
Municipal bonds	—	—	—	—
Mortgage backed securities	—	4	—	4
Other fixed income	—	155	3	158
Fixed income total	—	2,623	8	2,631
Public REITs	34	—	—	34
Private real estate	—	14	151	165
Real estate total	34	14	151	199
Hedge funds	—	—	214	214
Other investments total	—	—	214	214
Total investment assets at fair value	\$ 401	\$ 3,230	\$ 621	\$ 4,252
Liabilities				
Swaps	\$ —	\$ (801)	\$ —	\$ (801)
Other fixed income	—	(6)	—	(6)
Fixed income total	—	(807)	—	(807)
Total liabilities at fair value	\$ —	\$ (807)	\$ —	\$ (807)
Accounts payable, net				(158)
Total net assets				\$ 3,287

(1) There were no significant transfers in or out of level 1 or 2 investments.

(\$ in millions)	Investments at Fair Value at January 31, 2015			
	Level 1 ⁽¹⁾	Level 2 ⁽¹⁾	Level 3	Total
Assets				
Cash	\$ 10	\$ 2	\$ —	\$ 12
Common collective trusts	—	38	—	38
Cash and cash equivalents total	10	40	—	50
Common collective trusts – domestic	—	222	—	222
Common collective trusts – international	—	197	—	197
Equity securities – domestic	733	—	—	733
Equity securities – international	104	—	—	104
Private equity	—	—	281	281
Equity securities total	837	419	281	1,537
Common collective trusts	—	1,695	—	1,695
Corporate bonds	—	1,319	7	1,326
Swaps	—	415	—	415
Government securities	—	167	—	167
Corporate loans	—	69	5	74
Municipal bonds	—	66	—	66
Mortgage backed securities	—	5	—	5
Other fixed income	—	21	—	21
Fixed income total	—	3,757	12	3,769
Public REITs	100	—	—	100
Private real estate	—	20	153	173
Real estate total	100	20	153	273
Hedge funds	—	—	314	314
Other investments total	—	—	314	314
Total investment assets at fair value	\$ 947	\$ 4,236	\$ 760	\$ 5,943
Liabilities				
Swaps	\$ —	\$ (428)	\$ —	\$ (428)
Other fixed income	(2)	(3)	—	(5)
Fixed income total	(2)	(431)	—	(433)
Total liabilities at fair value	\$ (2)	\$ (431)	\$ —	\$ (433)
Accounts payable, net				(36)
Total net assets				\$ 5,474

(1) There were no significant transfers in or out of level 1 or 2 investments.

Following is a description of the valuation methodologies used for Primary Pension Plan assets measured at fair value.

Cash – Cash is valued at cost which approximates fair value, and is classified as level 1 of the fair value hierarchy.

Common Collective Trusts – Common collective trusts are pools of investments within cash equivalents, equity and fixed income that are benchmarked relative to a comparable index. They are valued on the basis of the relative interest of each participating investor in the fair value of the underlying assets. The underlying assets are valued at net asset value (NAV) and are classified as level 2 of the fair value hierarchy.

Equity Securities – Equity securities are common stocks and preferred stocks valued based on the price of the security as listed on an open active exchange and classified as level 1 of the fair value hierarchy, as well as warrants and preferred stock that are valued at a price, which is based on a broker quote in an over-the-counter market, and are classified as level 2 of the fair value hierarchy.

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Private Equity – Private equity is composed of interests in private equity funds valued on the basis of the relative interest of each participating investor in the fair value of the underlying assets and/or common stock of privately held companies. There are no observable market values for private equity funds. The valuations for the funds are derived using a combination of different methodologies including (1) the market approach, which consists of analyzing market transactions for comparable assets, (2) the income approach using the discounted cash flow model, or (3) cost method. Private equity funds also provide audited financial statements. Private equity investments are classified as level 3 of the fair value hierarchy.

Corporate Bonds – Corporate bonds and Corporate loans are valued at a price which is based on observable market information in primary markets or a broker quote in an over-the-counter market, and are classified as level 2 or level 3 of the fair value hierarchy.

Swaps – swap contracts are based on broker quotes in an over-the-counter market and are classified as level 2 of the fair value hierarchy.

Government, Municipal Bonds and Mortgaged Backed Securities – Government and municipal securities are valued at a price based on a broker quote in an over-the-counter market and classified as level 2 of the fair value hierarchy. Mortgage backed securities are valued at a price based on observable market information or a broker quote in an over-the-counter market and classified as level 2 of the fair value hierarchy.

Other fixed income – non-mortgage asset backed securities, collateral held in short-term investments for derivative contract and derivatives composed of futures contracts, option contracts and other fix income derivatives valued at a price based on observable market information or a broker quote in an over-the-counter market and classified as level 2 of the fair value hierarchy.

Real Estate – Real estate is comprised of public and private real estate investments. Real estate investments through registered investment companies that trade on an exchange are classified as level 1 of the fair value hierarchy. Investments through open end private real estate funds that are valued at the reported NAV are classified as level 2 of the fair value hierarchy. Private real estate investments through partnership interests that are valued based on different methodologies including discounted cash flow, direct capitalization and market comparable analysis are classified as level 3 of the fair value hierarchy.

Hedge Fund – Hedge funds exposure is through fund of funds, which are made up of over 30 different hedge fund managers diversified over different hedge strategies. The fair value of the hedge fund is determined by the fund's administrator using valuation provided by the third party administrator for each of the underlying funds.

The following tables set forth a summary of changes in the fair value of the Primary Pension Plan's level 3 investment assets:

	2015				
(\$ in millions)	Private Equity	Real Estate	Corporate Loans	Corporate Bonds	Hedge Funds
Balance, beginning of year	\$ 281	\$ 153	\$ 5	\$ 7	\$ 314
Transfers, net	—	—	—	—	—
Realized gains/(loss)	41	(23)	—	(3)	3
Unrealized (losses)/gains	(17)	38	—	2	(1)
Purchases and issuances	18	2	—	1	119
Sales, maturities and settlements	(75)	(19)	(2)	(2)	(221)
Balance, end of year	\$ 248	\$ 151	\$ 3	\$ 5	\$ 214

	2014				
(\$ in millions)	Private Equity	Real Estate	Corporate Loans	Corporate Bonds	Hedge Funds
Balance, beginning of year	\$ 298	\$ 204	\$ 6	\$ 11	\$ 153
Realized gains/(loss)	57	3	—	—	13
Unrealized (losses)/gains	(8)	17	—	(1)	(4)
Purchases and issuances	31	3	4	5	467
Sales, maturities and settlements	(97)	(74)	(5)	(8)	(315)
Balance, end of year	\$ 281	\$ 153	\$ 5	\$ 7	\$ 314

Contributions

Our policy with respect to funding the Primary Pension Plan is to fund at least the minimum required by ERISA rules, as amended by the Pension Protection Act of 2006, and not more than the maximum amount deductible for tax purposes. Due to our past funding of the pension plan and overall positive growth in plan assets since plan inception, there will not be any required cash contribution for funding of plan assets in 2016 under ERISA, as amended by the Pension Protection Act of 2006.

Our contributions to the unfunded non-qualified supplemental retirement plans are equal to the amount of benefit payments made to retirees throughout the year and for 2016 are anticipated to be approximately \$45 million. Benefits are paid in the form of five equal annual installments to participants and no election as to the form of benefit is provided for in the unfunded plans. The following sets forth our estimated future benefit payments:

(\$ in millions)	Primary Plan Benefits	Supplemental Plan Benefits
2016	\$ 199	\$ 45
2017	202	23
2018	206	16
2019	212	15
2020	216	14
2020-2025	1,152	66

Other Benefit Plans

Postretirement Benefits — Medical and Dental

We provide medical and dental benefits to retirees through a contributory medical and dental plan based on age and years of service. We provide a defined dollar commitment toward retiree medical premiums.

Effective June 7, 2005, we amended the medical plan to reduce our subsidy to post-age 65 retirees and spouses by 45% beginning January 1, 2006, and then fully eliminated the subsidy after December 31, 2006. As disclosed previously, the postretirement benefit plan was amended in 2001 to reduce and cap the per capita dollar amount of the benefit costs that would be paid by the plan. Thus, changes in the assumed or actual health care cost trend rates do not materially affect the accumulated postretirement benefit obligation or our annual expense.

The net periodic postretirement benefit income of \$7 million in 2015, \$8 million in 2014 and \$8 million in 2013 is included in SG&A expenses in the Consolidated Statements of Operations. The postretirement medical and dental plan has no assets and an accumulated postretirement benefit obligation (APBO) of \$8 million at January 30, 2016 and \$11 million at January 31, 2015.

Defined Contribution Plans

The Savings, Profit-Sharing and Stock Ownership Plan (Savings Plan) is a qualified defined contribution plan, a 401(k) plan, available to all eligible employees. Effective January 1, 2007, all employees who are age 21 or older are immediately eligible to participate in and contribute a percentage of their pay to the Savings Plan. Eligible employees, who have completed one year and at least 1,000 hours of service within an eligibility period, are offered a fixed matching contribution each pay period equal to 50% of up to 6% of pay contributed by the employee. Matching contributions are credited to employees' accounts in accordance with their investment elections and fully vest after three years. We may make additional discretionary matching contributions.

The Savings Plan includes a non-contributory retirement account. Participants who are hired or rehired on or after January 1, 2007 and who have completed at least 1,000 hours of service within an eligibility period receive a Company contribution in an amount equal to 2% of the participants' annual pay. This Company contribution is in lieu of the primary pension benefit that was closed to employees hired or rehired on or after that date. Participating employees are fully vested after three years.

In addition to the Savings Plan, we sponsor the Mirror Savings Plan, which is a non-qualified contributory unfunded defined contribution plan offered to certain management employees. This plan supplements retirement savings under the Savings Plan for eligible management employees who choose to participate in it. The plan's investment options generally mirror the traditional Savings Plan investment options. Similar to the supplemental retirement plans, the Mirror Savings Plan benefits are paid from our operating cash flow and cash investments.

The expense for these plans, which was predominantly included in SG&A expenses in the Consolidated Statements of Operations, was \$56 million in 2015, \$53 million in 2014 and \$52 million in 2013.

17. Restructuring and Management Transition

The components of Restructuring and management transition include:

- **Home office and stores** -- charges for actions to reduce our store and home office expenses including employee termination benefits, store lease termination and impairment charges;
- **Store fixtures** -- charges for increased depreciation and impairments of certain store fixtures;
- **Management transition** -- charges related to implementing changes within our management leadership team for both incoming and outgoing members of management; and
- **Other** -- charges related primarily to contract termination costs and other costs associated with our previous shops strategy.

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

(\$ in millions)	2015	2014	2013	Cumulative Amount From Program Inception Through 2015
Home office and stores	\$ 42	\$ 45	\$ 48	\$ 289
Store fixtures	—	—	55	133
Management transition	28	16	37	252
Other	14	26	75	163
Total	<u>\$ 84</u>	<u>\$ 87</u>	<u>\$ 215</u>	<u>\$ 837</u>

Activity for the restructuring and management transition liability for 2015 and 2014 was as follows:

(\$ in millions)	Home Office and Stores	Management Transition	Other	Total
February 1, 2014	\$ —	\$ 3	\$ 30	\$ 33
Charges	45	16	26	87
Cash payments	(8)	(16)	(38)	(62)
Non-cash	(28)	(3)	(1)	(32)
January 31, 2015	<u>9</u>	<u>—</u>	<u>17</u>	<u>26</u>
Charges	42	28	14	84
Cash payments	(33)	(9)	(7)	(49)
Non-cash	—	(9)	(1)	(10)
January 30, 2016	<u>\$ 18</u>	<u>\$ 10</u>	<u>\$ 23</u>	<u>\$ 51</u>

Non-cash amounts represent charges that do not result in cash expenditures including increased depreciation and write-off of store fixtures and stock-based compensation.

18. Real Estate and Other, Net

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

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

(\$ in millions)	2015	2014	2013
Net gain from sale of non-operating assets	\$ (9)	\$ (25)	\$ (132)
Investment income from Home Office Land Joint Venture	(41)	(53)	—
Net gain from sale of operating assets	(9)	(92)	(17)
Store and other asset impairments	20	30	27
Other	42	(8)	(33)
Total expense/(income)	\$ 3	\$ (148)	\$ (155)

Net Gain from Sale of Non-operating Assets - Sale or Redemption of REIT Assets

In 2013, we sold 205,000 REIT units 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.

Investment Income from Joint Ventures

In 2015, the Company had \$41 million in income related to its proportional share of the net income in the Home Office Land Joint Venture and received an aggregate cash distribution of \$36 million. In 2014, the Company had \$53 million in income related to its proportional share of the net income in the Home Office Land Joint Venture and received an aggregate cash distribution of \$58 million.

Other - Settlement of Class Action Lawsuit

During 2015, the Company accrued \$50 million under the proposed settlement related to the pricing class action litigation. Pursuant to the settlement, which is subject to court approval, class members will have the option of selecting a cash payment or store credit. The amount of the payment or credit will depend on the total amount of certain merchandise purchased by each class member during the class period.

19. Income Taxes

The components of our income tax expense/(benefit) were as follows:

<i>(\$ in millions)</i>	2015	2014	2013
Current			
Federal and foreign	\$ 5	\$ 12	\$ (16)
State and local	6	8	(8)
Total current	11	20	(24)
Deferred			
Federal and foreign	(1)	9	(370)
State and local	(1)	(6)	(36)
Total deferred	(2)	3	(406)
Total	<u>\$ 9</u>	<u>\$ 23</u>	<u>\$ (430)</u>

A reconciliation of the statutory federal income tax rate to our effective rate is as follows:

<i>(percent of pre-tax income/(loss))</i>	2015	2014	2013
Federal income tax at statutory rate	(35.0)%	(35.0)%	(35.0)%
State and local income tax, less federal income tax benefit	(4.2)	(4.2)	(4.0)
Increase in valuation allowance federal and state	36.7	41.7	28.6
Tax benefit resulting from OCI allocation	—	—	(14.6)
Other, including permanent differences and credits	4.3	0.8	(0.2)
Effective tax rate	<u>1.8 %</u>	<u>3.3 %</u>	<u>(25.2)%</u>

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Our deferred tax assets and liabilities were as follows:

<i>(\$ in millions)</i>	2015	2014
Assets		
Merchandise inventory	\$ 39	\$ 35
Accrued vacation pay	22	24
Gift cards	90	76
Stock-based compensation	77	76
Deferred equity adjustment	11	—
State taxes	15	25
Workers' compensation/general liability	85	87
Accrued rent	37	35
Litigation exposure	32	—
Mirror savings plan	15	18
Pension and other retiree obligations	96	—
Net operating loss and tax credit carryforwards	1,072	1,100
Other	65	51
Total deferred tax assets	1,656	1,527
Valuation allowance	(1,025)	(784)
Total net deferred tax assets	631	743
Liabilities		
Depreciation and amortization	(741)	(851)
Pension and other retiree obligations	—	(3)
Tax benefit transfers	(56)	(59)
Long-lived intangible assets	(28)	(21)
Total deferred tax liabilities	(825)	(934)
Total net deferred tax liabilities	\$ (194)	\$ (191)

Deferred tax assets and liabilities included in our Consolidated Balance Sheets were as follows:

<i>(\$ in millions)</i>	2015	2014
Other current assets	\$ 231	\$ 172
Other long-term liabilities	(425)	(363)
Total net deferred tax liabilities	\$ (194)	\$ (191)

As of January 30, 2016, a valuation allowance of \$1,025 million has been recorded against our deferred tax assets. 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, beginning in the second quarter of 2013, 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.

In accordance with accounting standards, we are required to allocate a portion of our tax provision between operating losses and Accumulated other comprehensive income/(loss). As a result, in 2013, we recorded a \$250 million tax benefit in the Consolidated Statements of Operations offset by income tax expense on actuarial gains recorded in Other comprehensive income/(loss). In 2015 and 2014, the company did not benefit any of its operating loss and incurred an actuarial loss in Other comprehensive income/(loss), the tax benefit on which was fully offset by a valuation allowance within Other comprehensive income/(loss).

For U.S. federal income tax purposes, we have \$2.6 billion of gross NOL carryforwards that expire in 2032 through 2035 and \$62 million of tax credit carryforwards that expire at various dates through 2035. These NOL carryforwards include an

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unrealized gross tax deduction of \$24 million (tax effect \$9 million) related to the implementation of share-based compensation accounting guidance that will be recorded in equity when realized.

These carryforwards have a potential to be used to offset future taxable income and reduce future cash tax liabilities by approximately \$1.1 billion. The Company's ability to utilize these carryforwards will depend upon the availability of future taxable income during the carryforward period and, as such, there is no assurance the Company will be able to realize such tax savings.

The Company's ability to utilize NOL carryforwards could be further limited if it were to experience an "ownership change," as defined in Section 382 of the Code and similar state provisions. An ownership change can occur whenever there is a cumulative shift in the ownership of a company by more than 50 percentage points by one or more "5% stockholders" within a three-year period. The occurrence of such a change generally limits the amount of NOL carryforwards a company could utilize in a given year to the aggregate fair market value of the company's common stock immediately prior to the ownership change, multiplied by the long-term tax-exempt interest rate in effect for the month of the ownership change.

As discussed in Note 13, on January 27, 2014, the Board adopted the Amended Rights Agreement to help prevent acquisitions of the Company's common stock that could result in an ownership change under Section 382 which helps preserve the Company's ability to use its NOL and tax credit carryforwards. The Amended Rights Agreement was ratified by the shareholder vote on May 16, 2014 and remains effective through January 26, 2017. Approval required an affirmative vote of the shares of common stock present in person or by proxy at the Annual Meeting. At a later date, the Company's Board of Directors may consider resubmitting the Amended Rights Agreement for stockholder approval of a subsequent term.

The Amended Rights Agreement is designed to prevent acquisitions of the Company's common stock that would result in a stockholder owning 4.9% or more of the Company's common stock (as calculated under Section 382), or any existing holder of 4.9% or more of the Company's common stock acquiring additional shares, by substantially diluting the ownership interest of any such stockholder unless the stockholder obtains an exemption from the Board.

A reconciliation of unrecognized tax benefits is as follows:

<i>(\$ in millions)</i>	2015	2014	2013
Beginning balance	\$ 62	\$ 70	\$ 76
Additions for tax positions of prior years	40	10	6
Reductions for tax positions of prior years	—	—	(1)
Settlements and effective settlements with tax authorities	(10)	(16)	(9)
Expirations of statute	(1)	(2)	(2)
Balance at end of year	<u>\$ 91</u>	<u>\$ 62</u>	<u>\$ 70</u>

Unrecognized tax benefits included in our Consolidated Balance Sheets were as follows:

<i>(\$ in millions)</i>	2015	2014
Deferred taxes (current assets)	\$ 84	\$ 49
Accounts payable and accrued expenses (Note 7)	3	5
Other liabilities (Note 8)	4	8
Total	<u>\$ 91</u>	<u>\$ 62</u>

As of the end of 2015, 2014 and 2013, the unrecognized tax benefits balance included \$33 million, \$36 million and \$49 million, respectively, that, if recognized, would be a benefit in the income tax provision after giving consideration to the offsetting effect of \$12 million, \$13 million and \$17 million, respectively, related to the federal tax deduction of state taxes. The remaining amounts reflect tax positions for which the ultimate deductibility is highly certain, but for which there is uncertainty about the timing. Accrued interest and penalties related to unrecognized tax benefits included in income tax expense as of the end of 2015, 2014 and 2013 were \$3 million, \$3 million and \$6 million, respectively.

We file income tax returns in U.S. federal and state jurisdictions and certain foreign jurisdictions. Our U.S. federal returns have been examined through 2012. We are audited by the taxing authorities of many states and certain foreign countries and are subject to examination by these taxing jurisdictions for years generally after 2008. The tax authorities may have the right to

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examine prior periods where federal and state NOL and tax credit carryforwards were generated, and make adjustments up to the amount of the NOL and credit carryforward amounts.

20. Supplemental Cash Flow Information

(\$ in millions)	2015	2014	2013
Supplemental cash flow information			
Income taxes received/(paid), net	\$ (5)	\$ (30)	\$ 81
Interest received/(paid), net	(369)	(401)	(414)
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	1	(14)	(29)
Financing costs withheld from proceeds of long-term debt	—	7	70
Purchase of property and equipment and software through capital leases and a note payable	1	3	4
Issuance costs withheld from proceeds of common stock issued	—	—	24
Return of shares of Martha Stewart Living Omnimedia, Inc. previously acquired by the Company	—	—	36

21. Litigation and Other Contingencies

Litigation

Macy's Litigation

On August 16, 2012, Macy's, Inc. and Macy's Merchandising Group, Inc. (together the Plaintiffs) filed suit against JCP 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 the Company 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, the Company 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. On June 17, 2015, Macy's appealed the court's order that the Judicial Hearing Officer proceed with the damages phase of the proceedings on the tortious interference claim. On November 24, 2015, the Judicial Hearing Officer issued a recommendation on the amount of damages to be awarded to Macy's. Both parties have objected to the damages recommendation. On December 1, 2015, the appellate court heard oral argument on Macy's appeal of the trial court's order referring issues related to damages to the Judicial Hearing Officer and the parties are awaiting a decision. 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.

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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. The Fifth District Court of Appeals affirmed the award of attorneys' fees and costs on December 19, 2014. The Company filed a Petition for Review with the Texas Supreme Court. The Texas Supreme Court requested full briefing on the merits of this petition, which has been completed. 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 filed a motion to dismiss the consolidated complaint which was denied by the court on September 29, 2015. Defendants filed an answer to the consolidated complaint on November 12, 2015. Plaintiff filed a motion for class certification on January 25, 2016.

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, generally mirrors the allegations contained in the Marcus lawsuit discussed above, and seeks similar relief. On June 8, 2015, plaintiff in the Marcus lawsuit amended the consolidated complaint to include the members of the purported class in the Johnson lawsuit, and on June 10, 2015, the Johnson lawsuit was consolidated into the Marcus lawsuit.

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

JCP and certain present and former members of JCP'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

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complaint which was granted in part and denied in part by the court on September 29, 2015. Defendants filed an answer to the complaint on November 6, 2015. 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

JCP 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*. The lawsuits seek compensatory damages, penalties, interest, disgorgement, declaratory and injunctive relief, and attorney's fees and costs. 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' motion for class certification. Pursuant to a motion by the Company, the California court decertified the class on December 9, 2015. On February 12, 2016, Plaintiff and the Company each filed motions for partial summary judgment with the California court. The Illinois court denied without prejudice plaintiffs' motion for class certification pending the filing of an amended complaint. Plaintiffs filed their amended complaint in the Illinois lawsuit on April 14, 2015 and the Company has answered. On July 2, 2015, the Illinois plaintiffs renewed their motion for class certification, which the Company has opposed. 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.

Pricing Class Action Litigation

JCP is a defendant in a class action proceeding entitled *Spann v. J. C. Penney Corporation, Inc.* filed on February 8, 2012 in the U.S. District Court, Central District of California. The lawsuit alleges that JCP violated California's Unfair Competition Law and related state statutes in connection with its advertising of sale prices for private label apparel and accessories. The lawsuit seeks restitution, damages, injunctive relief, and attorney's fees and costs. On May 18, 2015, the court granted plaintiffs' request for certification of a class consisting of all people who, between November 5, 2010 and January 31, 2012, made purchases in California of JCP private or exclusive label apparel or accessories advertised at a discount of at least 30% off the stated original or regular price (excluding those who only received such discount by using coupon(s)), and who have not received a refund or credit for their purchases. The parties have reached a settlement agreement, subject to court approval, and in accordance with the term of the settlement, we have established a \$50 million reserve to settle class members' claims.

Other Legal Proceedings

We are subject to various other legal and governmental proceedings involving routine litigation incidental to our business. Accruals have been established based on our best estimates of our potential liability in certain of these matters, including certain matters discussed above, all of which we believe aggregate to an amount that is not material to the Consolidated Financial Statements. These estimates were developed in consultation with in-house and outside counsel. While no assurance can be given as to the ultimate outcome of these matters, we currently believe that the final resolution of these actions, individually or in the aggregate, will not have a material adverse effect on our results of operations, financial position, liquidity or capital resources.

Contingencies

As of January 30, 2016, we estimated our total potential environmental liabilities to range from \$20 million to \$25 million and recorded our best estimate of \$23 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.

22. Quarterly Results of Operations (Unaudited)

The following is a summary of our quarterly unaudited consolidated results of operations for 2015 and 2014:

2015

(\$ in millions, except EPS)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Total net sales	\$ 2,857	\$ 2,875	\$ 2,897	\$ 3,996
Gross margin	1,041	1,065	1,082	1,363
SG&A expenses	965	901	947	962
Restructuring and management transition ⁽¹⁾	22	17	14	31
Net income/(loss) ⁽²⁾	(150) ⁽⁴⁾	(117) ⁽⁴⁾	(115) ⁽⁴⁾	(131)
Diluted earnings/(loss) per share ⁽³⁾	\$ (0.49) ⁽⁴⁾	\$ (0.38) ⁽⁴⁾	\$ (0.38) ⁽⁴⁾	\$ (0.43)

2014

(\$ in millions, except EPS)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Total net sales	\$ 2,801	\$ 2,799	\$ 2,764	\$ 3,893
Gross margin	926	1,008	1,013	1,314
SG&A expenses	1,009	964	988	1,032
Restructuring and management transition ⁽⁵⁾	22	5	12	48
Net income/(loss) ⁽⁶⁾⁽⁷⁾	(341)	(163)	(178)	(35)
Diluted earnings/(loss) per share ⁽³⁾⁽⁷⁾	\$ (1.12)	\$ (0.53)	\$ (0.58)	\$ (0.11)

(1) Restructuring and management transition charges (Note 17) by quarter for 2015 consisted of the following:

(\$ in million)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Home office and stores	\$ 14	\$ 15	\$ 9	\$ 4
Management transition	6	1	3	18
Other	2	1	2	9
Total	\$ 22	\$ 17	\$ 14	\$ 31

(2) The first, second, third and fourth quarters of 2015 contained increases to our tax valuation allowance of \$44 million, \$46 million, \$41 million and \$110 million, respectively. The first, second and third quarters of 2015 contained gains from non-operating assets sales (Note 18) of \$2 million, \$6 million and \$1 million, respectively.

(3) EPS is computed independently for each of the quarters presented. The sum of the quarters may not equal the total year amount due to the impact of changes in average quarterly shares outstanding.

(4) Reflects the retrospective application of the change in our method of recognizing pension expense. See Note 3 of Notes to Consolidated Financial Statements for a discussion of the change and related impacts. The retrospective application of the change in recognizing pension expense increased net income/(loss) by \$17 million in first quarter, \$21 million in second quarter and \$22 million in the third quarter and increased diluted earnings/(loss) per share by \$0.06 in first quarter, \$0.07 in second quarter and \$0.07 in the third quarter.

(5) Restructuring and management transition charges (Note 17) by quarter for 2014 consisted of the following:

(\$ in millions)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Home office and stores	\$ 12	\$ —	\$ 3	\$ 30
Management transition	7	1	7	1
Other	3	4	2	17
Total	\$ 22	\$ 5	\$ 12	\$ 48

(6) The first, second, third and fourth quarters of 2014 contained increases to our tax valuation allowance of \$120 million, \$28 million, \$107 million, and \$225 million, respectively. The first, second, third and fourth quarters of 2014 contained gains from non-operating assets sales (Note 18) of \$12 million, \$9 million, \$2 million and \$2 million, respectively. The fourth quarter of 2014 included \$30 million of store impairments charges recorded in Real estate and other, net (Note 18).

(7) Reflects the retrospective application of the change in our method of recognizing pension expense. See Note 3 of Notes to Consolidated Financial Statements for a discussion of the change and related impacts. The retrospective application of the change in recognizing pension expense increased net income/(loss) by \$11 million in first quarter, \$9 million in second quarter, \$10 million in the third quarter and \$24 million in the fourth quarter and increased diluted earnings/(loss) per share by \$0.03 in first quarter, \$0.03 in second quarter, \$0.04 in the third quarter and \$0.08 in the fourth quarter.

Exhibit Index

Exhibit No.	Exhibit Description	Form	Incorporated by Reference			Filed Herewith (†) (as indicated)
			SEC File No.	Exhibit	Filing Date	
2.1	Agreement and Plan of Merger dated as of January 23, 2002, between JCP and Company	8-K	001-15274	2	1/28/2002	
3.1	Restated Certificate of Incorporation of the Company, as amended to May 20, 2011	10-Q	001-15274	3.1	6/8/2011	
3.2	Bylaws of the Company, as amended to July 23, 2013	8-K	001-15274	3.1	7/26/2013	
3.3	Certificate of Designation, Preferences and Rights of Series C Junior Participating Preferred Stock	8-K	001-15274	3.1	8/22/2013	
4.1	Indenture, dated as of October 1, 1982, between JCP and U.S. Bank National Association, Trustee (formerly First Trust of California, National Association, as Successor Trustee to Bank of America National Trust and Savings Association)	10-K	001-00777	4(a)	4/19/1994	
4.2	First Supplemental Indenture, dated as of March 15, 1983, between JCP and U.S. Bank National Association, Trustee (formerly First Trust of California, National Association, as Successor Trustee to Bank of America National Trust and Savings Association)	10-K	001-00777	4(b)	4/19/1994	
4.3	Second Supplemental Indenture, dated as of May 1, 1984, between JCP and U.S. Bank National Association, Trustee (formerly First Trust of California, National Association, as Successor Trustee to Bank of America National Trust and Savings Association)	10-K	001-00777	4(c)	4/19/1994	
4.4	Third Supplemental Indenture, dated as of March 7, 1986, between JCP and U.S. Bank National Association, Trustee (formerly First Trust of California, National Association, as Successor Trustee to Bank of America National Trust and Savings Association)	S-3	033-03882	4(d)	3/11/1986	
4.5	Fourth Supplemental Indenture, dated as of June 7, 1991, between JCP and U.S. Bank National Association, Trustee (formerly First Trust of California, National Association, as Successor Trustee to Bank of America National Trust and Savings Association)	S-3	033-41186	4(e)	6/13/1991	
4.6	Fifth Supplemental Indenture, dated as of January 27, 2002, among the Company, JCP and U.S. Bank National Association, Trustee (formerly First Trust of California, National Association, as Successor Trustee to Bank of America National Trust and Savings Association) to Indenture dated as of October 1, 1982	10-K	001-15274	4(o)	4/25/2002	
4.7	Sixth Supplemental Indenture, dated as of May 20, 2013, among J. C. Penney Corporation, Inc., J. C. Penney Company, Inc., as co-obligor, and Wilmington Trust, National Association, as successor trustee	8-K	001-15274	4.1	5/24/2013	
4.8	Indenture, dated as of April 1, 1994, between JCP and U.S. Bank National Association, Trustee (formerly First Trust of California, National Association, as Successor Trustee to Bank of America National Trust and Savings Association)	S-3	033-53275	4(a)	4/26/1994	
4.9	First Supplemental Indenture dated as of January 27, 2002, among the Company, JCP and U.S. Bank National Association, Trustee (formerly Bank of America National Trust and Savings Association) to Indenture dated as of April 1, 1994	10-K	001-15274	4(p)	4/25/2002	

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

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Exhibit No.	Exhibit Description	Incorporated by Reference				Filed Herewith (†) (as indicated)
		Form	SEC File No.	Exhibit	Filing Date	
4.10	Second Supplemental Indenture dated as of July 26, 2002, among the Company, JCP and U.S. Bank National Association, Trustee (formerly Bank of America National Trust and Savings Association) to Indenture dated as of April 1, 1994	10-Q	001-15274	4	9/6/2002	
4.11	Indenture, dated September 15, 2014, among J. C. Penney Company, Inc., J. C. Penney Corporation, Inc. and Wilmington Trust, National Association	8-K	001-15274	4.1	9/15/2014	
4.12	First Supplemental Indenture (including the form of Note), dated September 15, 2014, among J. C. Penney Company, Inc., J. C. Penney Corporation, Inc., and Wilmington Trust, National Association	8-K	001-15274	4.2	9/15/2014	
4.13	Warrant Purchase Agreement dated June 13, 2011 between J. C. Penney Company, Inc. and Ronald B. Johnson	8-K	001-15274	4.1	6/14/2011	
4.14	Warrant dated as of June 13, 2011 between J. C. Penney Company, Inc. and Ronald B. Johnson	8-K	001-15274	4.2	6/14/2011	
4.15	Amended and Restated Rights Agreement, dated as of January 27, 2014, by and between J. C. Penney Company, Inc. and Computershare Inc., as Rights Agent	8-K	001-15274	4.1	1/28/2014	
10.1	Credit and Guaranty Agreement, dated as of May 22, 2013, among J. C. Penney Company, Inc., J. C. Penney Corporation, Inc., the subsidiary guarantors party thereto, the financial institutions party thereto as lenders, Goldman Sachs Bank USA, as administrative agent, collateral agent and lead arranger, the other joint arrangers and joint bookrunners party thereto and the other agents party thereto	10-Q	001-15274	10.3	9/10/2013	
10.2	Pledge and Security Agreement, dated as of May 22, 2013, among J. C. Penney Company, Inc., J. C. Penney Corporation, Inc., the subsidiary guarantors party thereto and Goldman Sachs Bank USA, as collateral agent	10-Q	001-15274	10.4	9/10/2013	
10.3	Intercreditor and Collateral Cooperation Agreement, dated as of May 22, 2013, among JPMorgan Chase Bank, N.A., as representative with respect to the ABL credit agreement, Goldman Sachs Bank USA, as representative with respect to the term loan agreement, J. C. Penney Company, Inc., J. C. Penney Corporation, Inc. and the subsidiary guarantors party thereto	10-Q	001-15274	10.5	9/10/2013	
10.4	Representative Joinder Agreement No. 1 dated as of June 20, 2014 to the Intercreditor and Collateral Cooperation Agreement dated as of May 22, 2013, among JPMorgan Chase Bank, N. A., as existing representative with respect to the ABL credit Agreement, Goldman Sachs Bank USA, as representative with respect to the term loan agreement, J. C. Penney Corporation, Inc. and each of the other grantors party thereto	10-K	001-15274	10.4	3/25/2015	
10.5	Credit Agreement dated as of June 20, 2014 among J. C. Penney Company, Inc., J. C. Penney Corporation, Inc., J. C. Penney Purchasing Corporation, the Lenders party thereto, Wells Fargo Bank, National Association, as Administrative Agent, Revolving Agent and Swingline Lender, Bank of America, N.A., as Term Agent, Wells Fargo Bank, National Association and Bank of America, N.A., as Co-Collateral Agents and Wells Fargo Bank, National Association, as LC Agent	8-K	001-15274	10.1	6/23/2014	
10.6	Amendment No. 1 to Credit Agreement dated as of December 10, 2015 among J. C. Penney Company, Inc., J. C. Penney Corporation, Inc., J. C. Penney Purchasing Corporation, the guarantors party thereto, Wells Fargo Bank, National Association, as Administrative Agent and Revolving Agent, Bank of America, N.A., as Term Agent, Wells Fargo Bank, National Association and Bank of America, N.A., as co-collateral agents, and the lenders party thereto.	8-K	001-15274	10.1	12/11/2015	

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

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Exhibit No.	Exhibit Description	Incorporated by Reference				Filed Herewith (†) (as indicated)
		Form	SEC File No.	Exhibit	Filing Date	
10.7	Guarantee and Collateral Agreement dated as of June 20, 2014 among J. C. Penney Company, Inc., J. C. Penney Corporation, Inc., J. C. Penney Purchasing Corporation, the Subsidiaries of J. C. Penney Company, Inc. identified therein, and Wells Fargo Bank, National Association, as Administrative Agent	8-K	001-15274	10.2	6/23/2014	
10.8	Consumer Credit Card Program Agreement by and between JCP and GE Money Bank, as amended and restated as of November 5, 2009	8-K	001-15274	10.1	11/6/2009	
10.9	First Amendment, dated as of October 29, 2010, to Consumer Credit Card Program Agreement by and between J. C. Penney Corporation, Inc. and GE Money Bank, as amended and restated as of November 5, 2009	8-K	001-15274	10.1	10/29/2010	
10.10	Second Amendment dated as of January 30, 2013 to Consumer Credit Card Program Agreement by and between J. C. Penney Corporation, Inc. and GE Capital Retail Bank, as amended and restated as of November 5, 2009 and as amended by the First Amendment thereto dated as of October 29, 2010	8-K	001-15274	10.1	2/4/2013	
10.11	Third Amendment dated as of October 11, 2013 to Consumer Credit Card Program Agreement by and between J. C. Penney Corporation, Inc. and GE Capital Retail Bank, as amended and restated as of November 5, 2009, as amended by the First Amendment thereto dated as of October 29, 2010 and the Second Amendment thereto dated as of January 30, 2013	8-K	001-15274	10.1	10/15/2013	
10.12	Fourth Amendment dated February 25, 2014 to Consumer Credit Card Program Agreement by and between J. C. Penney Corporation, Inc. and GE Capital Retail Bank, as amended and restated as of November 5, 2009, as amended by the First Amendment thereto dated as of October 29, 2010, the Second Amendment thereto dated as of January 30, 2013 and the Third Amendment thereto dated October 11, 2013	10-Q	001-15274	10.1	6/3/2014	
10.13	Fifth Amendment dated as of April 6, 2015 to Consumer Credit Card Program Agreement by and between J. C. Penney Corporation, Inc. and Synchrony Bank, as amended and restated as of November 5, 2009, as amended by the First Amendment thereto dated as of October 29, 2010, the Second Amendment thereto dated as of January 30, 2013, the Third Amendment thereto dated October 11, 2013 and the Fourth Amendment thereto dated February 25, 2014	10-Q	001-15274	10.1	6/4/2015	
10.14	Sixth Amendment dated as of June 26, 2015 to Consumer Credit Card Program Agreement by and between J. C. Penney Corporation, Inc. and Synchrony Bank, as amended and restated as of November 5, 2009, as amended by the First Amendment thereto dated as of October 29, 2010, the Second Amendment thereto dated as of January 30, 2013, the Third Amendment thereto dated October 11, 2013, the Fourth Amendment thereto dated February 25, 2014, and the Fifth Amendment thereto dated April 6, 2015					†
10.15**	J. C. Penney Company, Inc. Directors' Equity Program Tandem Restricted Stock Award/Stock Option Plan	10-K	001-00777	10(k)	4/24/1989	
10.16**	J. C. Penney Company, Inc. 1993 Non-Associate Directors' Equity Plan	Def. Proxy Stmt.	001-00777	B	4/20/1993	
10.17**	February 1995 Amendment to J. C. Penney Company, Inc. 1993 Non-Associate Directors' Equity Plan	10-K	001-00777	10(ii)(m)	4/18/1995	
10.18**	Directors' Charitable Award Program	10-K	001-00777	10(r)	4/25/1990	
10.19**	J. C. Penney Company, Inc. 1997 Equity Compensation Plan	Def. Proxy Stmt.	001-00777	A	4/11/1997	
10.20**	J. C. Penney Company, Inc. 2001 Equity Compensation Plan	Def. Proxy Stmt.	001-00777	B	4/11/2001	
10.21**	J. C. Penney Company, Inc. 2005 Equity Compensation Plan, as amended through 12/10/2008	10-K	001-15274	10.65	3/31/2009	

Exhibit No.	Exhibit Description	Form	Incorporated by Reference			Filed Herewith (†) (as indicated)
			SEC File No.	Exhibit	Filing Date	
10.22**	J. C. Penney Company, Inc. 2009 Long-Term Incentive Plan	Def. Proxy Stmt.	001-15274	Annex A	3/31/2009	
10.23**	J. C. Penney Company, Inc. 2012 Long-Term Incentive Plan	Def. Proxy Stmt.	001-15274	Annex A	3/28/2012	
10.24**	J. C. Penney Company, Inc. 2014 Long-Term Incentive Plan	Def. Proxy Stmt.	001-15274	Annex A	3/21/2014	
10.25**	JCP Supplemental Term Life Insurance Plan for Management Profit-Sharing Associates, as amended and restated effective July 1, 2007	10-Q	001-15274	10.1	9/12/2007	
10.26**	Form of Director's election to receive all/portion of annual cash retainer in J. C. Penney Company, Inc. common stock (J. C. Penney Company, Inc. 2001 Equity Compensation Plan)	8-K	001-15274	10.4	2/15/2005	
10.27**	Form of Notice of Restricted Stock Award – Non-Associate Director Annual Grant under the J. C. Penney Company, Inc. 2001 Equity Compensation Plan	8-K	001-15274	10.5	2/15/2005	
10.28**	Form of Notice of Non-Associate Director Restricted Stock Unit Award under the J. C. Penney Company, Inc. 2001 Equity Compensation Plan	8-K	001-15274	10.1	5/24/2005	
10.29**	Form of Notice of Non-Associate Director Restricted Stock Unit Award under the J. C. Penney Company, Inc. 2005 Equity Compensation Plan	8-K	001-15274	10.1	11/18/2005	
10.30**	JCP Form of Executive Termination Pay Agreement, as amended and restated effective September 21, 2007	8-K	001-15274	10.1	9/26/2007	
10.31**	JCP Form of Executive Termination Pay Agreement, as amended and restated effective December 3, 2013	10-Q	001-15274	10.3	12/5/2013	
10.32**	JCP Form of Termination Pay Agreement	8-K	001-15274	10.2	5/21/2015	
10.33**	JCP Form of Executive Termination Pay Agreement, as amended and restated effective December 17, 2015					†
10.34**	Form of Notice of Grant of Stock Options under the J. C. Penney Company, Inc. 2005 Equity Compensation Plan	8-K	001-15274	10.4	3/27/2006	
10.35**	Form of Election to Receive Stock in Lieu of Cash Retainer(s) (J. C. Penney Company, Inc. 2005 Equity Compensation Plan)	8-K	001-15274	10.1	5/19/2006	
10.36**	Form of Notice of Election to Defer under the J. C. Penney Company, Inc. Deferred Compensation Plan for Directors	8-K	001-15274	10.2	5/19/2006	
10.37**	Form of Notice of Change of Factor for Deferral Account under the J. C. Penney Company, Inc. Deferred Compensation Plan for Directors	8-K	001-15274	10.8	2/15/2005	
10.38**	Form of Notice of Change in the Amount of Fees Deferred under the J. C. Penney Company, Inc. Deferred Compensation Plan for Directors	8-K	001-15274	10.3	5/19/2006	
10.39**	Form of Notice of Termination of Election to Defer under the J. C. Penney Company, Inc. Deferred Compensation Plan for Directors	8-K	001-15274	10.4	5/19/2006	
10.40**	Form of Notice of Grant of Stock Options under the J. C. Penney Company, Inc. 2005 Equity Compensation Plan	8-K	001-15274	10.1	3/15/2007	
10.41**	2008 Form of Notice of Grant of Stock Options under the J. C. Penney Company, Inc. 2005 Equity Compensation Plan	8-K	001-15274	10.1	3/7/2008	
10.42**	JCP 2009 Change in Control Plan	10-K	001-15274	10.60	3/31/2009	
10.43**	J. C. Penney Corporation, Inc. Change in Control Plan, effective January 10, 2011	8-K	001-15274	10.1	6/14/2011	
10.44**	Form of Indemnification Trust Agreement between JCP and JPMorgan Chase Bank (formerly Chemical Bank) dated as of July 30, 1986, as amended March 30, 1987	Def. Proxy Stmt.	001-00777	Exhibit 1 to Exhibit B	4/24/1987	
10.45**	Second Amendment to Indemnification Trust Agreement between JCP and JPMorgan Chase Bank, effective as of January 27, 2002	10-K	001-15274	10.53	3/31/2009	

Exhibit No.	Exhibit Description	Form	Incorporated by Reference			Filed Herewith (†) (as indicated)
			SEC File No.	Exhibit	Filing Date	
10.46**	Third Amendment to Indemnification Trust Agreement between Company, JCP and JPMorgan Chase Bank, effective as of June 1, 2008	10-Q	001-15274	10.2	9/10/2008	
10.47**	Form of Indemnification Agreement between Company, JCP and individual Indemnitees, as amended through January 27, 2002	10-K	001-15274	10(ii)(ab)	4/25/2002	
10.48**	Special Rules for Reimbursements Subject to Code Section 409A under Indemnification Agreement between Company, JCP and individual Indemnitees, adopted December 9, 2008	10-K	001-15274	10.56	3/31/2009	
10.49**	JCP Mirror Savings Plan, amended and restated effective December 31, 2007 and as further amended through December 9, 2008	10-K	001-15274	10.60	3/31/2009	
10.50**	J. C. Penney Company, Inc. Deferred Compensation Plan for Directors, as amended and restated effective February 27, 2008 and as further amended through December 10, 2008	10-K	001-15274	10.62	3/31/2009	
10.51**	Form of Notice of Grant of Stock Options under the J. C. Penney Company, Inc. 2009 Long-Term Incentive Plan	10-Q	001-15274	10.2	9/9/2009	
10.52**	Form of Notice of Restricted Stock Unit Grant under the J. C. Penney Company, Inc. 2009 Long-Term Incentive Plan	10-Q	001-15274	10.3	9/9/2009	
10.53**	Form of Notice of Non-Associate Director Restricted Stock Unit Award under the J. C. Penney Company, Inc. 2009 Long-Term Incentive Plan	10-Q	001-15274	10.4	9/9/2009	
10.54**	J. C. Penney Corporation, Inc., Management Incentive Compensation Program, effective January 30, 2011	8-K	001-15274	10.1	1/10/2011	
10.55**	Notice of Restricted Stock Unit Grant for Edward J. Record	10-K	001-15274	10.61	3/23/2015	
10.56**	Form of Executive Termination Pay Agreement between J. C. Penney Company, Inc. and Marvin R. Ellison	8-K	001-15274	10.2	10/14/2014	
10.57**	Notice of Restricted Stock Unit Grant for Marvin R. Ellison	10-K	001-15274	10.64	3/23/2015	
10.58**	Form of Notice of Grant of Stock Options under the J. C. Penney Company, Inc. 2012 Long-Term Incentive Plan	10-K	001-15274	10.80	3/20/2013	
10.59**	Form of Notice of Restricted Stock Unit Grant under the J. C. Penney Company, Inc. 2012 Long-Term Incentive Plan	10-K	001-15274	10.81	3/20/2013	
10.60**	Form of Notice of Non-Associate Director Restricted Stock Unit Award under the J. C. Penney Company, Inc. 2012 Long-Term Incentive Plan	10-K	001-15274	10.82	3/20/2013	
10.61**	Form of Notice of 2013 Performance Unit Grant under the J. C. Penney Company, Inc. 2012 Long-Term Incentive Plan	8-K	001-15274	10.1	4/4/2013	
10.62**	Form of Notice of 2014 Performance-Contingent Stock Option Grant under the J. C. Penney Company, Inc. 2012 Long-Term Incentive Plan for Myron E. Ullman, III	8-K	001-15274	10.1	3/24/2014	
10.63**	Form of Notice of 2014 Performance-Contingent Stock Option Grant under the J. C. Penney Company, Inc. 2012 Long-Term Incentive Plan	8-K	001-15274	10.2	3/24/2014	
10.64**	Form of Notice of 2014 Performance-Based Restricted Stock Unit Grant under the J. C. Penney Company, Inc. 2012 Long-Term Incentive Plan	8-K	001-15274	10.3	3/24/2014	
10.65**	Form of Notice of 2015 CEO Performance Unit Grant under the J. C. Penney Company, Inc. 2014 Long-Term Incentive Plan	10-Q	001-15274	10.2	6/4/2015	
10.66**	Form of Notice of 2015 CEO Stock Option Grant under the J. C. Penney Company, Inc. 2014 Long-Term Incentive Plan	10-Q	001-15274	10.3	6/4/2015	
10.67**	Form of Notice of Restricted Stock Unit Grant under the J. C. Penney Company, Inc. 2014 Long-Term Incentive Plan	10-Q	001-15274	10.4	6/4/2015	
10.68**	Form of Notice of Stock Option Grant under the J. C. Penney Company, Inc. 2014 Long-Term Incentive Plan	10-Q	001-15274	10.5	6/4/2015	

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Exhibit No.	Exhibit Description	Incorporated by Reference				Filed Herewith (†) (as indicated)
		Form	SEC File No.	Exhibit	Filing Date	
10.69**	Form of Notice of Performance Unit Grant under the J. C. Penney Company, Inc. 2014 Long-Term Incentive Plan	10-Q	001-15274	10.6	6/4/2015	
10.70**	Letter Agreement dated May 15, 2015 between J. C. Penney Company, Inc. and Andrew S. Drexler	8-K	001-15274	10.1	5/21/2015	
10.71**	Notice of Restricted Stock Unit Grant for Andrew Drexler					†
10.72**	Notice of Stock Option Grant for Andrew Drexler					†
10.73**	Form of Stock Option Grant Agreement under the J. C. Penney Company, Inc. 2014 Long-Term Incentive Plan					†
10.74**	Form of Restricted Stock Unit Grant Agreement under the J. C. Penney Company, Inc. 2014 Long-Term Incentive Plan					†
12	Computation of Ratios of Earnings to Fixed Charges					†
18	Preferability Letter of Independent Registered Public Accounting Firm					†
21	Subsidiaries of the Registrant					†
23	Consent of Independent Registered Public Accounting Firm					†
24	Power of Attorney					†
31.1	Certification by CEO pursuant to 15 U.S.C. 78m(a) or 780(d), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					†
31.2	Certification by CFO pursuant to 15 U.S.C. 78m(a) or 780(d), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					†
32.1	Certification by CEO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					†
32.2	Certification by CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					†
101.INS	XBRL Instance Document					†
101.SCH	XBRL Taxonomy Extension Schema Document					†
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document					†
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document					†
101.LAB	XBRL Taxonomy Extension Label Linkbase Document					†
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document					†

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

EXECUTION COPY

**SIXTH AMENDMENT TO
AMENDED AND RESTATED CONSUMER CREDIT CARD PROGRAM
AGREEMENT**

This Sixth Amendment (“Amendment Number Six”) dated as of June 26, 2015 to that certain Consumer Credit Card Program Agreement made as of December 6, 1999, as amended and restated as of November 5, 2009, and as amended as of October 29, 2010, January 30, 2013, October 11, 2013, February 25, 2014, and April 6, 2015 by and between J. C. PENNEY CORPORATION, INC., formerly known as J. C. Penney Company, Inc., a Delaware corporation, with its principal place of business at Plano, Texas, and SYNCHRONY BANK, assignee of Monogram Credit Card Bank of Georgia and formerly known as GE Capital Retail Bank and GE Money Bank, with its principal place of business at 170 W. Election Road, Draper, Utah 84020 (the “Agreement”). Capitalized terms used herein without definition shall have the meanings ascribed to them in the Agreement.

WITNESSETH:

WHEREAS, JCPenney and Bank desire to make certain changes to the Agreement to reflect certain modifications to the Program that the parties desire to implement.

NOW, THEREFORE, in consideration of the terms and conditions stated herein, and for good and valuable consideration the receipt of which is hereby acknowledged, the parties hereto agree as follows:

I. Performance Payments. Schedule 4.7 to the Agreement is hereby deleted and replaced in its entirety with Schedule 4.7 attached hereto.

II. Effective Date. This Amendment Number Six shall become effective as of June 26, 2015.

III. Miscellaneous.

A. The execution, delivery and performance of this Amendment Number Six has been duly authorized by all requisite corporate action on the part of JCPenney and Bank and upon execution by all parties, will constitute a legal and binding obligation of each thereof.

B. The Agreement, as amended by this Amendment Number Six, constitutes the entire understanding of the parties with respect to the subject matter thereof. Except as expressly amended hereby, the terms and conditions of the Agreement shall continue and remain in full force and effect. In the event of any conflict between the Agreement and this Amendment Number Six, the terms and conditions of this Amendment Number Six shall govern.

C. The parties hereto agree to execute such other documents and instruments and to do such other and further things as may be necessary or desirable for the execution and implementation of this Amendment Number Six and the consummation of the transactions contemplated hereby and thereby.

D. This Amendment Number Six may be executed in counterparts, each of which shall constitute an original, but all of which, when taken together, shall constitute but one agreement. A facsimile or other electronic signature is as valid and binding as an original.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties hereto have executed and delivered this Amendment Number Six as of the date set forth above.

J. C. PENNEY CORPORATION, INC. SYNCHRONY BANK

By: /s/ Michael D. Porter By: /s/ Tom Quindlen

Title: VP, Treasurer Title: EVP Retail Card

[Date of Delivery]

EXECUTIVE TERMINATION PAY AGREEMENT
[INSERT NAME OF EXECUTIVE OFFICER]

This Executive Termination Pay Agreement (the “Agreement”), dated as of _____, 20__ is between J.C. Penney Corporation, Inc. (“Corporation”) and the undersigned member of the Corporation’s executive team (the “Executive”).

WHEREAS, in order to achieve its long-term objectives, the Corporation recognizes that it is essential to attract and retain superior executives;

WHEREAS, in order to induce the Executive to serve in the Executive’s position with the Corporation, the Corporation desires to provide the Executive with the right to receive certain benefits in the event the Executive experiences an Involuntary Separation from Service other than for Cause, as defined in this Agreement, on the terms and subject to the conditions hereinafter set forth; and

WHEREAS, in return for receiving the benefits provided for in this Agreement in connection with the Executive’s Involuntary Separation from Service other than for Cause, the Executive agrees to be bound by certain restrictive covenants, as described in Section 3 of this Agreement, in connection with the Executive’s Voluntary Separation from Service or Involuntary Separation from Service other than for Cause.

NOW, THEREFORE, in consideration of the promises and of the mutual covenants herein contained, it is agreed as follows:

1. Termination Payments and Benefits.

- 1.1 *Death or Permanent Disability.* In the event of a Separation from Service due to death, or in the event of a Separation from Service within 30 days following a determination of Permanent Disability (as defined in Section 2 of this Agreement) of the Executive, then as soon as practicable or within the period required by law, but in no event later than 30 days after Separation from Service, the Corporation shall pay any (a) accrued and unpaid Base Salary (as defined in Section 2 of this Agreement) and vacation to which the Executive was entitled as of the effective date of termination of the Executive’s employment with the Corporation (collectively, the “Compensation Payments”) and (b) the target annual incentive (at \$1.00 per unit) under the Corporation’s Management Incentive Compensation Program for the fiscal year in which the date of death or the determination of Permanent Disability occurs, prorated for the actual period of service for that fiscal year (the “Prorated Bonus”). The payment of any death benefits or disability benefits under any employee benefit or compensation plan that is maintained by the Corporation for the Executive’s benefit shall be governed by the terms of such plan.
 - 1.2 *Involuntary Separation from Service for Cause.* In the event of the Involuntary Separation from Service (as defined in Section 2 of this Agreement) of the Executive for Cause (as defined in Section 2 of this Agreement), the Corporation shall pay the Compensation Payments to the Executive as soon as practicable or within the period required by law, and the Executive shall be entitled to no other compensation, except as otherwise due to the Executive under applicable law, applicable plan or program. The Executive shall not be entitled to the payment of any bonuses for any portion of the fiscal year in which such Separation from Service occurs.
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- 1.3 *Voluntary Separation from Service by the Executive.* In the event of a Voluntary Separation from Service by the Executive (i) the Corporation shall pay the Compensation Payments to the Executive as soon as practicable or within the period required by law, and (ii) the Executive agrees to be bound by the terms of the Covenants and Representations contained in Section 3 of this Agreement. The Executive shall be entitled to no other compensation, except as otherwise due to the Executive under applicable law or applicable plan or program. The Executive shall not be entitled to the payment of any bonuses, including any amounts payable under the Management Incentive Compensation Program for any portion of the fiscal year in which such Separation from Service occurs, except as may otherwise be expressly provided under the Management Incentive Compensation Program.
- 1.4 *Involuntary Separation from Service without Cause.*
- (a) *Form and Amount.* In the event of the Involuntary Separation from Service of the Executive without Cause, the Corporation shall pay the Compensation Payments to the Executive as soon as practicable or within the period required by law. In addition, conditioned upon receipt of the Executive's written release of claims in such form as may be required by the Corporation and the expiration of any applicable period during which the Executive can rescind or revoke such release, the Corporation shall pay the Executive in equal installments, no less frequently than monthly, during the applicable Severance Period severance pay equal to the Executive's monthly Base Salary, plus the Executive's target annual incentive (at \$1.00 per unit) under the Corporation's Management Incentive Compensation Program for the fiscal year in which the Executive experiences an Involuntary Separation from Service other than for Cause converted to a monthly amount by dividing that target annual incentive amount by 12. If the Executive is eligible for continuation coverage under the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("COBRA") under the medical and/or dental coverage options under the J. C. Penney Corporation, Inc. Health and Welfare Benefit Plan ("Health and Welfare Plan") and the Executive elects COBRA continuation coverage under the medical and/or dental coverage options under the Health and Welfare Plan, the Corporation will continue to pay its portion of the premium cost of the Executive's medical and/or dental coverage elections under the Health and Welfare Plan as provided in Section 1.4(b) of this Agreement. In addition, the Corporation shall pay to the Executive (i) within 14 days of the Executive's Involuntary Separation from Service other than for Cause, but in no later than two and one-half months after the end of the Executive's tax year in which the Involuntary Separation from Service occurs, a lump sum equal to, (a) Special Bonus Hours to the extent provided under Section 1.4(c) of this Agreement, if applicable, and (b) \$25,000 to pay for outplacement services and financial counseling services, and (ii) within two and one-half months after the end of the fiscal year in which the Executive experiences an Involuntary Separation from Service other than for Cause, a lump sum equal to the Severance Bonus. Notwithstanding the foregoing, if the applicable revocation or rescission period described in this Section 1.4(a) with respect to any waiver or release of claims begins in one taxable year and ends in a second taxable year, any payments and other rights described in this Section 1.4(a) shall not commence until the second taxable year. In addition to the payments provided for herein, following an Involuntary Separation from Service other than for Cause, the Corporation shall also provide to the Executive Accelerated Vesting as provided in Section 1.4(d) of this Agreement.
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- (b) *Health and Dental Insurance Continuation.* Following an Involuntary Separation from Service other than for Cause, the Executive will, as provided in Section 1.4(a) of this Agreement, be eligible to receive COBRA continuation coverage under the medical and/or dental option, as applicable, under the Health and Welfare Plan at active associate rates if (i) the Executive is enrolled in a full-time medical and/or dental option, as applicable, under the Health and Welfare Plan on the effective date of the Executive's Involuntary Separation from Service other than for Cause and the Corporation currently is paying a portion of the Executive's premium for the medical and/or dental coverage on the Executive's behalf, and (ii) the Executive timely elects COBRA continuation coverage under the Health and Welfare Plan. If the Executive satisfies these prerequisites, the Corporation will allow the Executive to participate in COBRA continuation coverage under the Health and Welfare Plan at active associate rates until the earlier of (i) the end of the month that coincides with or next follows the term of the Severance Period; and (ii) the end of the month prior to the month the Executive fails to timely make any required premium payment under the Health and Welfare Plan in connection with receiving COBRA continuation coverage under the Health and Welfare Plan or otherwise loses eligibility for COBRA continuation coverage under the terms of the medical and/or dental option, as applicable, under the Health and Welfare Plan. Any subsidized COBRA continuation coverage provided under this Section 1.4(b) will be applied against the Executive's statutory continuation period under COBRA.
- (c) *Special Bonus Hours.* Following an Involuntary Separation from Service, the Corporation shall pay the Executive a lump sum payment for Special Bonus Hours, if the Executive is a participant in the Corporation's Paid Time Off Policy ("PTO Policy"). Such payment shall be determined in accordance with the provisions of the PTO Policy applicable to an involuntary termination resulting from a reduction in force.
- (d) *Accelerated Vesting.* On Executive's Involuntary Separation from Service other than for Cause, Executive shall:
- (i) with respect to any equity award that constitutes an Inducement Award, immediately vest in such Inducement Award as provided in the applicable award notice or agreement evidencing the award.
 - (ii) with respect to any award of stock options, stock appreciation rights, or time-based restricted stock or restricted units, immediately vest in a prorated number of the stock options, stock appreciation rights, and/or time-based restricted stock or restricted stock units based on the Executive's length of employment during the vesting period provided in the applicable award notice or agreement.
 - (iii) with respect to any award of performance-based restricted stock or restricted stock unit awards, vest in a prorated number of such performance-based restricted stock or restricted stock units based on (X) Executive's length of employment during the performance period, and (Y) the attainment of the performance goal as of the end of the performance period, all as provided under the terms of the respective award notice or agreement.
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- 1.5 *Section 409A.* To the extent applicable, it is intended that portions of this Agreement either comply with or be exempt from the provisions of Section 409A of the Code (as defined in Section 2 of this Agreement). Any provision of this Agreement that would cause this Agreement to fail to comply with or be exempt from Code section 409A shall have no force and effect until such provision is either amended to comply with or be exempt from Code section 409A (which amendment may be retroactive to the extent permitted by Code section 409A and the Executive hereby agrees not to withhold consent unreasonably to any amendment requested by the Corporation for the purpose of either complying with or being exempt from Code section 409A).
- 1.6 *Enforcement and Forfeiture.* Notwithstanding the foregoing provisions of this Section 1, in addition to any remedies to which the Corporation is entitled, any right of the Executive to receive termination payments and benefits under Section 1 shall be forfeited to the extent of any amounts payable or benefits to be provided after a breach of any covenant set forth in Section 3. On the Company's becoming aware that the Executive has breached, or potentially has breached, any covenant set forth in Section 3 of this Agreement, the Corporation shall suspend all future installment payments under Section 1.4(a) of this Agreement and may seek recoupment of all amounts previously paid to the Executive under Section 1.4(a) this Agreement. The forfeiture or recoupment of any equity awards that are subject to covenants like those contained in Section 3 of this Agreement shall be governed by the terms of the applicable equity award agreement containing such covenants.
- 1.7 *Non-Eligibility For Management Incentive Compensation Program benefits and Other Company Separation Pay Benefits.* The benefits provided for herein are intended to be in lieu of, and not in addition to, benefits under the Management Incentive Compensation Program the Executive could earn with respect to any incentive compensation or bonus program in place for the fiscal year in which the Executive's Involuntary Separation from Service other than for Cause occurs or other separation pay benefits to which the Executive might be entitled, including those under the Corporation's Separation Pay Plan, or any successor plan or program offered by the Corporation, which the Executive hereby waives. If the Executive receives benefits under the Corporation's Change in Control Plan (the "CIC Plan"), in the event of Employment Termination (as defined in the CIC Plan), the covenants set forth in Section 3 hereof shall automatically terminate and, if the Executive shall receive all benefits to which the Executive is entitled under the CIC Plan, the Executive waives all benefits hereunder.
- 1.8 *Corporation's Right of Offset.* If the Executive is at any time indebted to the Corporation, or otherwise obligated to pay money to the Corporation for any reason, to the extent exempt from or otherwise permitted by Code section 409A and the Treasury Regulations thereunder, including Treasury Regulation section 1.409A-3(j)(4)(xiii) or any successor thereto, the Corporation, at its election, may offset amounts otherwise payable to the Executive under this Agreement, including, but without limitation, Base Salary and incentive compensation payments, against any such indebtedness or amounts due from the Executive to the Corporation, to the extent permitted by law.
- 1.9 *Mitigation.* In the event of the Involuntary Separation from Service of the Executive, the Executive shall not be required to mitigate damages by seeking other employment or otherwise as a condition to receiving termination payments or benefits under this Agreement. No amounts earned by the Executive after the Executive's Involuntary Separation from Service,
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whether from self-employment, as a common law employee, or otherwise, shall reduce the amount of any payment or benefit under any provision of this Agreement.

- 1.10 *Resignations.* Except to the extent requested by the Corporation, upon termination of the Executive's service with the Corporation for any reason, the Executive shall immediately resign all positions and directorships with the Corporation and each of its subsidiaries and affiliates.

2. Certain Definitions.

As used in this Agreement, the following terms shall have the following meanings:

- 2.1 *"Agreement"* shall mean this Executive Termination Pay Agreement.
- 2.2 *"Base Salary"* shall mean the Executive's annual base salary as in effect at the effective date of termination of the Executive's termination of employment with the Corporation.
- 2.3 *"Cause"* shall mean (a) an intentional act of fraud, embezzlement, theft or any other material violation of law that occurs during or in the course of Executive's employment with the Corporation; (b) intentional damage to the Corporation's assets; (c) intentional disclosure of the Corporation's confidential information contrary to Corporation's policies; (d) material breach of Executive's obligations under this Agreement; (e) intentional engagement in any competitive activity which would constitute a breach of Executive's duty of loyalty or of Executive's obligations under this Agreement; (f) the willful and continued failure to substantially perform Executive's duties for the Corporation (other than as a result of incapacity due to physical or mental illness); provided, however, that termination for Cause based on clause (f) shall not be effective unless the Executive shall have written notice from the Chief Executive Officer of the Corporation (which notice shall include a description of the reasons and circumstances giving rise to such notice) not less than 30 days prior to the Executive's termination and the Executive has failed after receipt of such notice to satisfactorily discharge the Executive's duties.; or (g) intentional breach of any of Corporation's policies or willful conduct by Executive that is in either case demonstrably and materially injurious to Corporation, monetarily or otherwise. Failure to meet performance standards or objectives, by itself, does not constitute "Cause." "Cause" also includes any of the above grounds for dismissal regardless of whether the Corporation learns of it before or after terminating Executive's employment.
- 2.4 *"Code"* shall mean the Internal Revenue Code of 1986, as amended, including proposed, temporary or final regulations or any other guidance issued by the Secretary of the Treasury or the Internal Revenue Service with respect thereto.
- 2.5 *"CIC Plan"* shall have the meaning ascribed thereto in Section 1.7 of this Agreement.
- 2.6 *"Compensation Payments"* shall have the meaning ascribed thereto in Section 1.1 of this Agreement.
- 2.7 *"Competing Business"* shall have the meaning ascribed thereto in Section 3.4 of this Agreement.
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- 2.8 “*Corporation*” shall mean J.C. Penney Corporation, Inc.
- 2.9 “*Executive*” shall mean the undersigned member of the Corporation’s executive team.
- 2.10 “*Inducement Award*” shall mean an equity award granted to Executive in consideration of Executive’s (i) employment with the Corporation and (ii) forfeiture of equity awards granted by a former employer.
- 2.11 “*Involuntary Separation from Service*” shall mean Separation from Service due to the independent exercise of the unilateral authority of the Service Recipient to terminate the Executive’s services, other than due to the Executive’s implicit or explicit request, where the Executive was willing and able to continue performing services, within the meaning of Code section 409A and Treasury Regulation section 1.409A-1(n)(1) or any successor thereto.
- 2.12 “*Management Incentive Compensation Program*” shall mean the Management Incentive Compensation Program approved by shareholders on May 18, 2012, as such may be amended from time to time, or any successor plan or program that replaces the Management Incentive Compensation Program.
- 2.13 “*Permanent Disability*” means the Executive is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, within the meaning of Code section 409A and Treasury Regulation section 1.409A-3(i)(4)(i)(A) or any successor thereto. A determination of Permanent Disability, for purposes of payment under this Agreement, will be made by the Corporation’s disability insurance plan administrator or insurer.
- 2.14 “*Proprietary Information*” shall have the meaning ascribed thereto in Section 3.
- 2.15 “*Prorated Bonus*” shall have the meaning ascribed thereto in Section 1.1 of this Agreement.
- 2.16 “*PTO Policy*” shall have the meaning ascribed thereto in Section 1.4 of this Agreement.
- 2.17 “*Separation from Service*” within the meaning of Code section 409A and Treasury Regulation section 1.409A-1(h) or any successor thereto, shall mean the date an Executive retires, dies or otherwise has a termination of employment with the Service Recipient. In accordance with Treasury Regulation section 1.409A-1(h) or any successor thereto, if an Executive is on a period of leave that exceeds six months and the Executive does not retain a right to reemployment under an applicable statute or by contract, the employment relationship is deemed to terminate on the first date immediately following such six-month period, and also, an Executive is presumed to have separated from service where the level of bona fide services performed (whether as an employee or an independent contractor) decreases to a level equal to 20 percent or less of the average level of services performed (whether as an employee or an independent contractor) by the Executive during the immediately preceding 36-month period (or the full period of service to the Service Recipient if the employee has been providing services for less than the 36-month period).
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2.18 “*Service Recipient*” shall mean the person, within the meaning of Treasury Regulation section 1.409A-1(g) or any successor thereto, for whom the services are performed and with respect to whom the legally binding right to compensation arises, and all persons with whom such person would be considered a single employer under Code section 414(b) (employees of controlled group of corporations), and all persons with whom such person would be considered a single employer under Code section 414(c) (employees of partnerships, proprietorships, etc., under common control), using the “at least 50 percent” ownership standard, within the meaning of Code section 409A and Treasury Regulation section 1.409A-1(h)(3) or any successor thereto.

2.19 “*Severance Bonus*” shall mean the actual incentive compensation payable to the Executive under the terms of the Management Incentive Compensation Program for the fiscal year in which the Executive experiences an Involuntary Separation from Service other than for Cause, prorated for the Executive’s actual period of service for the fiscal year, less any amounts previously paid to the Executive under the incentive compensation program for that fiscal year. If the incentive compensation formula under the Management Incentive Compensation Program for the fiscal year in which the Executive’s Involuntary Separation from Service other than for Cause occurs includes an individual performance component/goal, for purposes of calculating the actual incentive compensation payable to the Executive for that fiscal year the portion of the incentive compensation attributable to the achievement of the individual performance component/goal will be determined at target for that fiscal year.

2.20 “*Severance Period*” shall mean the following period, based on the Executive’s title at the time of termination of the Executive’s employment with the Corporation:

<u>Title</u>	<u>Severance Period</u>
Executive Vice Presidents and above	18 months
Senior Vice President	12 months

2.21 “*Voluntary Separation from Service*” shall mean a Separation from Service other than as a result of the Executive’s death, Permanent Disability, or an Involuntary Separation from Service.

3. Covenants and Representations of the Executive. The Executive hereby acknowledges that the Executive’s duties to the Corporation require access to and creation of the Corporation’s confidential or proprietary information and trade secrets (collectively, the “Proprietary Information”). The Proprietary Information has been and will continue to be developed by the Corporation and its subsidiaries and affiliates at substantial cost and constitutes valuable and unique property of the Corporation. The Executive further acknowledges that due to the nature of the Executive’s position, the Executive will have access to Proprietary Information affecting plans and operations in every location in which the Corporation (and its subsidiaries and affiliates) does business or plans to do business throughout the world, and the Executive’s decisions and recommendations on behalf of the Corporation may affect its operations throughout the world. Accordingly, the Executive acknowledges that the foregoing makes it reasonably necessary for the protection of the Corporation’s business interests that the Executive agree to the following covenants in connection with the Executive’s Involuntary Separation from Service other than for Cause and receipt of benefits under this Agreement or the Executive’s Voluntary Separation from Service:
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- 3.1 *Confidentiality.* The Executive hereby covenants and agrees that the Executive shall not, without the prior written consent of the Corporation, during the Executive's employment with the Corporation or at any time thereafter disclose to any person not employed by the Corporation, or use in connection with engaging in competition with the Corporation, any Proprietary Information of the Corporation.
- (a) It is expressly understood and agreed that the Corporation's Proprietary Information is all nonpublic information relating to the Corporation's business, including but not limited to information, plans and strategies regarding suppliers, pricing, marketing, customers, hiring and terminations, employee performance and evaluations, internal reviews and investigations, short term and long range plans, acquisitions and divestitures, advertising, information systems, sales objectives and performance, as well as any other nonpublic information, the nondisclosure of which may provide a competitive or economic advantage to the Corporation. Proprietary Information shall not be deemed to have become public for purposes of this Agreement where it has been disclosed or made public by or through anyone acting in violation of a contractual, ethical, or legal responsibility to maintain its confidentiality.
 - (b) In the event the Executive receives a subpoena, court order or other summons that may require the Executive to disclose Proprietary Information, on pain of civil or criminal penalty, the Executive will promptly give notice to the Corporation of the subpoena or summons and provide the Corporation an opportunity to appear at the Corporation's expense and challenge the disclosure of its Proprietary Information, and the Executive shall provide reasonable cooperation to the Corporation for purposes of affording the Corporation the opportunity to prevent the disclosure of the Corporation's Proprietary Information.
 - (c) Nothing in this Agreement shall restrict the Executive from, directly or indirectly, initiating communications with or responding to any inquiry from, or providing testimony before, the Securities and Exchange Commission ("SEC"), Financial Industries Regulatory Authority ("FINRA"), or any other self-regulatory organization or state or federal regulatory authority.
- 3.2 *Nonsolicitation of Employees.* The Executive hereby covenants and agrees that during the Executive's employment with the Corporation and, in the event the Executive has a Voluntary Separation from Service or will receive or has received the severance benefits provided for in Section 1.4, for a period equal to the Severance Period thereafter, the Executive shall not, without the prior written consent of the Corporation, on the Executive's own behalf or on the behalf of any person, firm or company, directly or indirectly, attempt to influence, persuade or induce, or assist any other person in so persuading or inducing, any of the employees of the Corporation (or any of its subsidiaries or affiliates) to give up his or her employment with the Corporation (or any of its subsidiaries or affiliates), and the Executive shall not directly or indirectly solicit or hire employees of the Corporation (or any of its subsidiaries or affiliates) for employment with any other employer, without regard to whether that employer is a Competing Business, as defined in section 3.4(b), below.
- 3.3 *Noninterference with Business Relations.* The Executive hereby covenants and agrees that during the Executive's employment with the Corporation and, in the event the Executive has
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a Voluntary Separation from Service or will receive or has received the severance benefits provided for in Section 1.4, for a period equal to the Severance Period thereafter, the Executive shall not, without the prior written consent of the Corporation, on the Executive's own behalf or on the behalf of any person, firm or company, directly or indirectly, attempt to influence, persuade or induce, or assist any other person in so persuading or inducing, any person, firm or company to cease doing business with, reduce its business with, or decline to commence a business relationship with, the Corporation (or any of its subsidiaries or affiliates).

3.4 *Noncompetition.*

- (a) The Executive covenants that during the Executive's employment with the Corporation and, in the event the Executive has a Voluntary Separation from Service or will receive or has received the severance benefits provided for in Section 1.4, for a period equal to the Severance Period thereafter, the Executive will not, except as otherwise provided for in this Section 3.4, undertake any work for a Competing Business, as defined in Section 3.4(b).
 - (b) As used in this Agreement, the term "Competing Business" shall specifically include, but not be limited to:
 - (i) Kohl's Corporation, Macy's, Inc., Target Corporation, The TJX Companies, Inc., Ross Stores, Inc., Wal-Mart Stores, Inc, Amazon.com, Inc., and any of their respective subsidiaries or affiliates, or
 - (ii) any business (A) that, at any time during the Severance Period, competes directly with the Corporation through sales of merchandise or services in the United States or another country or commonwealth in which the Corporation, including its divisions, affiliates and licensees, operates, and (B) where the Executive performs services, whether paid or unpaid, in any capacity, including as an officer, director, owner, consultant, employee, agent, or representative, where such services involve the performance of (x) substantially similar duties or oversight responsibilities as those performed by the Executive at any time during the 12-month period preceding the Executive's termination from the Corporation for any reason, or (y) greater duties or responsibilities that include such substantially similar duties or oversight responsibilities as those referred to in (x); or
 - (iii) any business that provides buying office or sourcing services to any business of the types referred to in this Section 3.4(b).
 - (c) For purposes of this section, the restrictions on working for a Competing Business shall include working at any location within the United States or Puerto Rico. Executive acknowledges that the Corporation is a national retailer with operations throughout the United States and Puerto Rico and that the duties and responsibilities that the Executive performs, or will perform, for the Corporation directly impact the Corporation's ability to compete with a Competing Business in a nationwide marketplace. Executive further acknowledges that Executive has, or will have, access to sensitive and confidential information of the Corporation that relates to the Corporation's ability to compete in a nationwide marketplace.
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- 3.5 *Non-Disparagement.* The Executive covenants that the Executive will not make any statement or representation, oral or written, that could adversely affect the reputation, image, goodwill or commercial interests of the Corporation. This provision will be construed as broadly as state or federal law permits, but no more broadly than permitted by state or federal law. This provision is not intended to and does not prohibit the Executive from participating in a governmental investigation concerning the Corporation, or providing truthful testimony in any lawsuit, arbitration, mediation, negotiation or other matter.
- 3.6 *Injunctive Relief.* If the Executive shall breach any of the covenants contained in this Section 3, the Corporation shall have no further obligation to make any payment to the Executive pursuant to this Agreement and may recover from the Executive all such damages as it may be entitled to under the terms of this Agreement, any other agreement between the Corporation and the Executive, at law, or in equity. In addition, the Executive acknowledges that any such breach is likely to result in immediate and irreparable harm to the Corporation for which money damages are likely to be inadequate. Accordingly, the Executive consents to injunctive and other appropriate equitable relief without the necessity of bond in excess of \$500.00 upon the institution of proceedings therefor by the Corporation in order to protect the Corporation's rights hereunder.
4. Employment-at-Will. Notwithstanding any provision in this Agreement to the contrary, the Executive hereby acknowledges and agrees that the Executive's employment with the Corporation is for an unspecified duration and constitutes "at-will" employment, and the Executive further acknowledges and agrees that this employment relationship may be terminated at any time, with or without Cause or for any or no Cause, at the option either of the Corporation or the Executive.
5. Miscellaneous Provisions.
- 5.1 *Execution and Delivery of this Agreement.* You will have 90 days following the *later of* (i) your effective date of employment, or (ii) the date you receive a copy of this Agreement, either physically or electronically, to execute and return this Agreement evidencing your acceptance of its terms and your agreement to be bound by the restrictive covenants under Section 3 of this Agreement in connection with your Voluntary Separation from Service or your Involuntary Separation from Service other than for Cause in order to receive the benefits under this Agreement in connection with your Involuntary Separation from Service other than for Cause. Failure to timely deliver an executed version of this Agreement within the timeframe provided in this Section 5.1 shall be evidence of your waiver of the benefits under this Agreement.
- 5.2 *Dispute Resolution.* Any dispute between the parties under this Agreement shall be resolved (except as provided below) through informal binding mandatory arbitration by an arbitrator selected under the rules of the American Arbitration Association for arbitration of employment disputes (located in the city in which the Corporation's principal executive offices are based) and the arbitration shall be conducted in that location under the rules of said Association. Each party shall be entitled to present evidence and argument to the arbitrator. The arbitrator shall have the right only to interpret and apply the provisions of this Agreement and may not change any of its provisions, except as expressly provided in Section 3.4 and only in the event the Corporation has not brought an action in a court of competent jurisdiction to enforce the covenants in Section 3. The arbitrator shall permit reasonable pre-hearing discovery of facts,
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to the extent necessary to establish a claim or a defense to a claim, subject to supervision by the arbitrator. The determination of the arbitrator shall be conclusive and binding upon the parties and judgment upon the same may be entered in any court having jurisdiction thereof. The arbitrator shall give written notice to the parties stating the arbitrator's determination, and shall furnish to each party a signed copy of such determination. The expenses of arbitration shall be borne equally by the Corporation and the Executive or as the arbitrator equitably determines consistent with the application of state or federal law; provided, however, that the Executive's share of such expenses shall not exceed the maximum permitted by law. To the extent applicable, in accordance with Code section 409A and Treasury Regulation section 1.409A-3(i)(1)(iv)(A) or any successor thereto, any payments or reimbursement of arbitration expenses which the Corporation is required to make under the foregoing provision shall meet the requirements below. The Corporation shall reimburse the Executive for any such expenses, promptly upon delivery of reasonable documentation, provided, however, all invoices for reimbursement of expenses must be submitted to the Corporation and paid in a lump sum payment by the end of the calendar year following the calendar year in which the expense was incurred. All expenses must be incurred within a 20 year period following the Separation from Service. The amount of expenses paid or eligible for reimbursement in one year under this Section 5.1 shall not affect the expenses paid or eligible for reimbursement in any other taxable year. The right to payment or reimbursement under this Section 5.1 shall not be subject to liquidation or exchange for another benefit.

Any arbitration or action pursuant to this Section 5.1 shall be governed by and construed in accordance with the substantive laws of the State of Texas and, where applicable, federal law, without giving effect to the principles of conflict of laws of such State. The mandatory arbitration provisions of this Section 5.1 shall supersede in their entirety the J.C. Penney Alternative, a dispute resolution program generally applicable to employment terminations, any existing Binding Mandatory Arbitration Agreement between Executive and the Corporation, and the JCPenney Rules of Employment Arbitration. Executive explicitly waives, and may not litigate, any multi-party claims or claims available in multi-party litigation, such as class actions.

Notwithstanding the foregoing, the Corporation shall not be required to seek or participate in arbitration regarding any actual or threatened breach of the Executive's covenants in Section 3, but may pursue its remedies, including injunctive relief, for such breach in a court of competent jurisdiction in the city in which the Corporation's principal executive offices are based, or in the sole discretion of the Corporation, in a court of competent jurisdiction where the Executive has committed or is threatening to commit a breach of the Executive's covenants, and no arbitrator may make any ruling inconsistent with the findings or rulings of such court.

- 5.3 *Binding on Successors; Assignment.* This Agreement shall be binding upon and inure to the benefit of the Executive, the Corporation and each of their respective successors, assigns, personal and legal representatives, executors, administrators, heirs, distributees, devisees, and legatees, as applicable; provided however, that neither this Agreement nor any rights or obligations hereunder shall be assignable or otherwise subject to hypothecation by the Executive (except by will or by operation of the laws of intestate succession) or by the Corporation except that the Corporation may assign this Agreement to any successor (whether by merger, purchase or otherwise) to all or substantially all of the stock, assets or businesses of the Corporation, if such successor expressly agrees to assume the obligations of the Corporation hereunder.
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- 5.4 *Governing Law.* This Agreement shall be governed, construed, interpreted, and enforced in accordance with the substantive law of the State of Texas and federal law, without regard to conflicts of law principles, except as expressly provided herein. In the event the Corporation exercises its discretion under Section 5.1 of this Agreement to bring an action to enforce the covenants contained in Section 3 of this Agreement in a court of competent jurisdiction where the Executive has breached or threatened to breach such covenants, and in no other event, the parties agree that the court may apply the law of the jurisdiction in which such action is pending in order to enforce the covenants to the fullest extent permissible.
- 5.5 *Severability.* Any provision of this Agreement that is deemed invalid, illegal or unenforceable in any jurisdiction shall, as to that jurisdiction, be ineffective, to the extent of such invalidity, illegality or unenforceability, without affecting in any way the remaining provisions hereof in such jurisdiction or rendering that or any other provisions of this Agreement invalid, illegal or unenforceable in any other jurisdiction. If any covenant in Section 3 should be deemed invalid, illegal or unenforceable because its time, geographical area, or restricted activity, is considered excessive, such covenant shall be modified to the minimum extent necessary to render the modified covenant valid, legal and enforceable.
- 5.6 *Notices.* For all purposes of this Agreement, all communications required or permitted to be given hereunder shall be in writing and shall be deemed to have been duly given when hand delivered or dispatched by electronic facsimile transmission (with receipt thereof confirmed), or five business days after having been mailed by United States registered or certified mail, return receipt requested, postage prepaid, or three business days after having been sent by a nationally recognized overnight courier service, addressed to the Corporation at its principal executive office, c/o the Corporation's General Counsel, and to the Executive at the Executive's principal residence, or to such other address as any party may have furnished to the other in writing and in accordance herewith, except that notices of change of address shall be effective only upon receipt.
- 5.7 *Counterparts.* This Agreement may be executed in several counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one and the same Agreement.
- 5.8 *Entire Agreement.* The terms of this Agreement are intended by the parties to be the final expression of their agreement with respect to the Executive's employment by the Corporation and may not be contradicted by evidence of any prior or contemporaneous agreement. The parties further intend that this Agreement shall constitute the complete and exclusive statement of its terms and that no extrinsic evidence whatsoever may be introduced in any judicial, administrative, or other legal proceedings to vary the terms of this Agreement.
- 5.9 *Amendments; Waivers.* This Agreement may not be modified, amended, or terminated except by an instrument in writing, approved by the Corporation and signed by the Executive and the Corporation. Failure on the part of either party to complain of any action or omission, breach or default on the part of the other party, no matter how long the same may continue, shall never be deemed to be a waiver of any rights or remedies hereunder, at law or in equity. The Executive or the Corporation may waive compliance by the other party with any provision of this Agreement that such other party was or is obligated to comply with or perform only
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through an executed writing; provided, however, that such waiver shall not operate as a waiver of, or estoppel with respect to, any other or subsequent failure.

- 5.10 *No Inconsistent Actions.* The parties hereto shall not voluntarily undertake or fail to undertake any action or course of action that is inconsistent with the provisions or essential intent of this Agreement. Furthermore, it is the intent of the parties hereto to act in a fair and reasonable manner with respect to the interpretation and application of the provisions of this Agreement.
- 5.11 *Headings, Section References, and Recitations.* The headings used in this Agreement are intended for convenience or reference only and shall not in any manner amplify, limit, modify or otherwise be used in the construction or interpretation of any provision of this Agreement. All section references are to sections of this Agreement, unless otherwise noted. The Recitations contained at the beginning of this Agreement are intended to be a part of this Agreement.
- 5.12 *Beneficiaries.* The Executive shall be entitled to select (and change, to the extent permitted under any applicable law) a beneficiary or beneficiaries to receive any compensation or benefit payable hereunder following the Executive's death, and may change such election, in either case by giving the Corporation written notice thereof in accordance with Section 5.5. In the event of the Executive's death or a judicial determination of the Executive's incompetence, reference in this Agreement to the "Executive" shall be deemed, where appropriate, to be the Executive's beneficiary, estate or other legal representative.
- 5.13 *Withholding.* The Corporation shall be entitled to withhold from payment any amount of withholding required by law.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date and year first above written.

J. C. Penney Corporation, Inc.

By:
Name:
Title:

Executive



**Notice
of Restricted Stock Unit Grant**

Name Andrew Drexler	Employee ID
Date of Grant June 11, 2015	Number of Performance Units Granted 31,437

Restricted Stock Unit Grant

Subject to the terms of this Notice of Restricted Stock Unit Grant ("Notice"), the J. C. Penney Company, Inc. (the "Company") hereby grants Andrew Drexler ("You" or "Your") the number of Restricted Stock Units listed above. The number of restricted stock units listed above was determined by dividing \$262,500, the agreed on value of Your Restricted Stock Unit award, by the Fair Market Value of the Common Stock on June 11, 2015. Each Restricted Stock Unit will at all times be deemed to have a value equal to the then-current Fair Market Value of one share of Common Stock.

Definitions

For purposes of this Notice, unless the context requires otherwise, the following terms will have the meanings indicated below:

"Board" will mean the Board of Directors of the Company.

"Cause" will mean:

- (a) "cause" or "summary dismissal," as the case may be, as that term may be defined in any written agreement between You and the Company that may at any time be in effect; or
- (b) in the absence of a definition in a then-effective agreement between You and the Company (as determined by the Board), termination of Your employment with the Company on the occurrence of one or more of the following events:
 - (i) Your failure to substantially perform Your duties with the Company as determined by the Board or the Company;
 - (ii) Your willful failure or refusal to perform specific directives of the Board, or the Company, which directives are consistent with the scope and nature of Your duties and responsibilities;
 - (iii) Your conviction of a felony; or
 - (iv) A breach of Your fiduciary duty to the Company or any act or omission by You that (A) constitutes a violation of the Company's Statement of Business Ethics, (B) results in the assessment of a criminal penalty against the Company, (C) is otherwise in violation of any federal, state, local or foreign law or regulation (other than traffic violations and other similar misdemeanors), (D) adversely affects or could reasonably be expected to adversely affect the business reputation of the Company, or (E) otherwise constitutes willful misconduct, gross negligence, or any act of dishonesty or disloyalty.

"Change in Control" will generally have the meaning specified in section 409A of the Code, and any regulations and guidance issued thereunder and will include a change of ownership, a change of effective control, or a change in ownership of a substantial portion of the assets of the Company. Generally, subject to section 409A:

- (a) A change of ownership occurs on the date that a person or persons acting as a group acquires ownership of stock of the Company that together with stock held by such person or group constitutes more than 50 percent of the total fair market value or total voting power of the stock of the Company.
- (b) Notwithstanding whether the Company has undergone a change of ownership, a change of effective control occurs (i) when a person or persons acting as a group acquires within a

when a person or persons acting as a group acquires within a 12-month period 30 percent of the total voting power of the stock of the Company, or (ii) a majority of the Board is replaced within a 12-month period by directors whose appointment or election is not approved by a majority of the members of the Board before the appointment or election. A change in effective control also may occur in any transaction in which either of the two corporations involved in the transaction has a Change in Control as defined in this Notice (i.e., multiple change in control events). For purposes of this Notice, any acquisition by the Company of its own stock within a 12-month period, either through a transaction or series of transactions, that, immediately following such acquisition, results in the total voting power of a person or

persons acting as a group to equal or exceed 30 percent of the total voting power of the stock of the Company will not constitute a change in effective control of the Company.

- (c) A change in ownership of a substantial portion of the Company's assets occurs when a person or persons acting as a group acquires assets that have a total gross fair market value equal to or more than 40 percent of the total gross fair market value of all assets of the Company immediately prior to the acquisition. A transfer of assets by the Company is not treated as a change in the ownership of such assets if the assets are transferred to:
 - (i) A shareholder of the Company (immediately before the asset transfer) in exchange for or with respect to its stock;
 - (ii) An entity, 50 percent or more of the total value or voting power of which is owned, directly or indirectly, by the Company;
 - (iii) A person, or more than one person acting as a group, that owns, directly or indirectly, 50 percent or more of the total value or voting power of all the outstanding stock of the Company; or
 - (iv) An entity, at least 50 percent of the total value or voting power of which is owned, directly or indirectly, by a person described in paragraph (iii), immediately above.

Persons will not be considered to be acting as a group solely because they purchase assets of the Company at the same time, or as a result of the same public offering; however, persons will be considered to be acting as a group if they are owners of a corporation that enters into a merger, consolidation, purchase or acquisition of assets, or similar business transaction with the Company.

"Code" will mean the Internal Revenue Code of 1986, as amended.

"Company" will mean J. C. Penney Company, Inc., the Corporation or any successor thereto, for whom the services are performed and with respect to whom the legally binding right to compensation arises, and all persons with whom the Corporation would be considered a single employer under Code section 414(b) (employees of controlled group of corporations), and all persons with whom the Corporation would be considered a single employer under Code section 414(c) (employees of partnerships, proprietorships, etc., under common control), using the "at least 50 percent" ownership standard, within the meaning of Code Section 409A and Treasury Regulation section 1.409A-1(h)(3) or any successor thereto.

"Common Stock" will mean the \$0.50 par value common stock of the Company.

"Corporation" will mean J. C. Penney Corporation, Inc.

"Disability" will mean disability as defined in any then effective long-term disability plan maintained by the Company that covers You, or if such a plan does not exist at any relevant time, "Disability" means Your permanent and total disability within the meaning of section 22(e)(3) of the Code.

"Fair Market Value" of the Common Stock on any date will be the closing price on such date as reported in the composite transaction table covering transactions of New York Stock Exchange ("Exchange") listed securities, or if such Exchange is closed, or if the Common Stock does not trade on such date, the closing price reported in the composite transaction table on the last trading date immediately preceding such date, or such other amount as the Board may ascertain reasonably to represent such fair market value; provided however, that such determination will be in accordance with the requirements of Treasury Regulation section 1.409A-1(b)(5)(iv), or its successor.

"Good Reason" will mean, following a Change in Control, a condition resulting from any of the actions listed below taken by the Company

resulting from any of the actions listed below taken by the Company that is directed at You without Your consent:

- (a) a material decrease in Your salary or incentive compensation opportunity (the amount paid at target as a percentage of salary under the Corporation's Management Incentive Compensation Program or any successor program then in effect); or
 - (b) failure by the Company to pay You a material portion of Your current base salary, or incentive compensation within seven days of its due date; or
 - (c) a material adverse change in reporting responsibilities, duties, or authority; or
 - (d) a material diminution in the authority, duties, or responsibilities of the supervisor to whom You are required to report without a corresponding increase in Your authority, duties or responsibilities; or
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- (e) a requirement that You report to a corporate officer or employee other than the Chief Executive Officer of the Company; or
- (f) a material diminution in the budget over which You retain authority; or
- (g) the Company requires You to change Your principal location of work to a location more than 50 miles from the location thereof immediately prior to such change; or
- (h) discontinuance of any material paid time off policy, fringe benefit, welfare benefit, incentive compensation, equity compensation, or retirement plan (without substantially equivalent compensating remuneration or a plan or policy providing substantially similar benefits) in which You participate or any action that materially reduces Your benefits or payments under such plans;

provided, however, that You must provide notice to the Corporation of the existence of any condition described above within 90 days of the initial existence of the condition, upon the notice of which the Corporation will have 30 days during which it or the Company may remedy the condition. Any separation from service as a result of a Good Reason condition must occur as of the later of (i) two years after the Change in Control, or (ii) 180 days after the initial existence of the condition described in (a) through (h) above that constitutes "Good Reason."

"Involuntary Separation from Service" will mean Your separation from service due to the independent exercise of the unilateral authority of the Company to terminate Your services, other than due to Your implicit or explicit request, where You were willing and able to continue performing services, within the meaning of Code Section 409A and Treasury Regulation section 1.409A-1(n)(1) or any successor thereto.

"Restricted Stock Unit" means an award that represents an unsecured promise by the Company to issue a share of Common Stock to You subject to restrictions or a substantial risk of forfeiture

"Retirement" will mean Your termination of employment with the Company other than for Cause on or after the date You attain age 55 with at least 15 years of service, or on or after You attain age 60 with at least 10 years of service.

Vesting of Your Restricted Stock Units

The Restricted Stock Units will vest, and the restrictions on Your Restricted Stock Units will lapse, according to the following vesting schedule, PROVIDED YOU REMAIN CONTINUOUSLY EMPLOYED BY THE COMPANY THROUGH THE VESTING DATE (unless Your employment terminates due to Your Disability, death, or if You are party to a Termination Pay Agreement ("TPA"), an Involuntary Separation from Service without Cause as defined in the TPA).

Vesting Date	Percent Vesting
June 11, 2016	33-1/3%
June 11, 2017	33-1/3%
June 11, 2018	33-1/3%

Your vested Restricted Stock Units will be paid out in shares of Common Stock as soon as practicable on or following the earlier of (i) Your termination of employment as a result of Your Disability or death or an Involuntary Separation from Service other than for Cause, or (ii) the applicable vesting date provided in the vesting table above. Notwithstanding the foregoing, if You are a specified employee as defined under Section 409A of the Code and the related Treasury regulations thereunder and any portion of Your Restricted Stock Unit award is, or becomes subject to the requirements of section 409A of the Code, Your vested Restricted Stock Units will be paid out in shares of Common Stock as soon as practicable following the earlier of (i) the date that is six months following Your termination of service due to Your Retirement, (ii) the date of Your death, and (iii) the next applicable vesting date provided in the vesting table above. You will

applicable vesting date provided in the vesting table above. You will not be allowed to defer the payment of Your shares of Common Stock to a later date.

Dividend Equivalents

You will not have any rights as a stockholder until Your Restricted Stock Units vest and You are issued shares of Common Stock in cancellation of the vested Restricted Stock Units. You will, however, accrue dividend equivalents on the unvested Restricted Stock Units in the amount of any quarterly dividend declared on the Common Stock. Dividend equivalents will continue to accrue until Your Restricted Stock Units vest and You receive actual shares of Common Stock in cancellation of the vested Restricted Stock Units. The dividend equivalents will be credited as additional Restricted Stock Units in Your account to be paid out in shares of Common Stock on the vesting date along with the Restricted Stock Units to which they relate. The number of additional Restricted Stock Units to be credited to Your account will be determined by dividing the aggregate dividend payable with respect to the number of Restricted Stock Units in Your account by the Fair Market Value of the Common Stock on the dividend record date. The additional Restricted Stock Units credited to Your account are subject to all of the terms and conditions of this Restricted Stock Unit award and You will forfeit Your additional Restricted Stock Units in the event that You forfeit the Restricted Stock Units to which they relate.

Acceleration of Vesting

If prior to June 11, 2018 Your employment is terminated as a result of Your death or Disability, then the restrictions will lapse with respect to all unvested Restricted Stock Units and all unvested Restricted Stock Units will become fully vested and non-forfeitable on the date of any such termination of Your employment. The number of Restricted Stock Units to which You are entitled will be distributed as provided in "Vesting of Your Restricted Stock Units" above.

If prior to June 11, 2018 you experience an Involuntary Separation from Service other than for Cause, including an Involuntary Separation from Service as a result of a job restructuring, reduction in force, or unit closing, you shall be entitled to a prorated number of Restricted Stock Units. The proration shall be equal to a fraction, the denominator of which is 36 and the numerator of which is the number of months from the date of grant to the effective date of your termination of service. The prorated number of Restricted Stock Units will be reduced by the number of Restricted Stock Units, if any, that by the terms of this Notice have already vested. The prorated number of Restricted Stock Units to which you are entitled will be distributed as provided in "Vesting of Your Restricted Stock Units" above. Any Restricted Stock Units for which vesting is not accelerated shall be cancelled on such Involuntary Separation from Service.

You may designate a beneficiary to receive any shares of Common Stock in which You may vest if Your employment is terminated as a result of Your death by completing a beneficiary designation form in such form as may be prescribed from time to time by the Company. The beneficiary listed on Your beneficiary designation form will receive the vested shares covered by the Restricted Stock Unit award in the case of termination of employment due to death.

If You experience an Involuntary Separation from Service for Cause, or You voluntarily resign, any unvested Restricted Stock Units will be cancelled on the effective date of Your employment termination and a result of the Involuntary Separation from Service for Cause or Your resignation.

Recoupment

Equity awards are subject to the Company's currently effective recoupment policy, as that policy may be amended from time to time by the Board or applicable statute or regulations. Under the recoupment policy, the Human Resources and Compensation Committee of the Board may require the Company, to the extent permitted by law, to cancel any of Your outstanding equity awards, including both vested and unvested awards, and/or to recover financial proceeds realized from the exercise of awards in the event of (i) a financial restatement arising out of the willful actions, including without limitation fraud or intentional misconduct, or gross negligence of any participant in the Company's compensation plans or programs, including without limitation, cash bonus and stock incentive plans, welfare plans, or deferred compensation plans, or (ii) other events as established by applicable statute or regulations.

Taxes and Withholding

The vesting of any Restricted Stock Units and the related issuance of shares of Common Stock will be subject to the satisfaction of all applicable federal, state, and local income and employment tax withholding requirements. Your withholding rate with respect to this award may not be higher than the minimum statutory rate. The Company will retain and cancel the number of issued shares equal to the value of the required minimum tax withholding in payment of the required minimum tax withholding due or will require that You satisfy the required minimum tax withholding, if any, or any other applicable federal, state, or local income or employment tax withholding by such other means as the Company, in its sole discretion, deems reasonable.

Changes in Capitalization and Similar Changes

In the event of any change in the value or number of shares of Common Stock outstanding, or the assumption and conversion of this Restricted Stock Unit award, by reason of any stock dividend, stock split, dividend or distribution, whether in cash, shares or other property

(other than a normal cash dividend), recapitalization, reorganization, merger, consolidation, split-up, spin-off, combination or exchange of shares, an equitable and proportionate adjustment will be made to the number and class of shares which may be issued on vesting of the Restricted Stock Units in this Notice.

Miscellaneous

- (a) **Dispute Resolution.** Any dispute between the parties under this Notice will be resolved (except as provided below) through informal arbitration by an arbitrator selected under the rules of the American Arbitration Association for arbitration of employment disputes (located in the city in which the Company's principal executive offices are based) and the arbitration will be conducted in that location under the rules of said Association. Each party will be entitled to present evidence and argument to the arbitrator. The arbitrator will have the right only to interpret and apply the provisions of this Notice and may not change any of its provisions. The arbitrator will permit reasonable pre-hearing discovery of facts, to the extent necessary to establish a claim or a defense to a claim, subject to supervision by the arbitrator. The determination of the arbitrator will be conclusive and binding upon the parties and judgment upon the same may be entered in any court having jurisdiction thereof. The arbitrator will give written notice to the parties stating the arbitrator's determination, and will furnish to each party a signed copy of such determination. The expenses of arbitration will be borne equally by the Company and You or as the arbitrator equitably determines consistent with the application of state or federal law; provided, however, that Your share of such expenses will not exceed the maximum permitted by law. To the extent applicable, in accordance with
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Code section 409A and Treasury Regulation section 1.409A-3(i)(1)(iv)(A) or any successor thereto, any payments or reimbursement of arbitration expenses which the Company is required to make under the foregoing provision will meet the requirements below. The Company will reimburse You for any such expenses, promptly upon delivery of reasonable documentation, provided, however, all invoices for reimbursement of expenses must be submitted to the Company and paid in a lump sum payment by the end of the calendar year following the calendar year in which the expense was incurred. All expenses must be incurred within a 20 year period following Your separation from service as defined in section 409A of the Code and the applicable Treasury regulations thereunder. The amount of expenses paid or eligible for reimbursement in one year under this Section governing the resolution of disputes under this Notice will not affect the expenses paid or eligible for reimbursement in any other taxable year. The right to payment or reimbursement under this Section governing the resolution of disputes under this Notice will not be subject to liquidation or exchange for another benefit.

Any arbitration or action pursuant to this Section governing the resolution of disputes under this Notice will be governed by and construed in accordance with the substantive laws of the State of Delaware and, where applicable, federal law, without giving effect to the principles of conflict of laws of such State. The mandatory arbitration provisions of this Section will supersede in their entirety the J.C. Penney Alternative, a dispute resolution program generally applicable to employment terminations.

- (b) **No Right to Continued Employment.** Nothing in this award will confer on You any right to continue in the employ of the Company or affect in any way the right of the Company to terminate Your employment without prior notice, at any time, for any reason, or for no reason.
- (b) **Unsecured General Creditor.** Neither You nor Your beneficiaries, heirs, successors, and assigns will have a legal or equitable right, interest or claim in any property or assets of the Company. For purposes of the payments under this Notice, any of the Company's assets will remain assets of the Company and the Company's obligation under this Notice will be merely that of an unfunded and unsecured promise to issue shares of Common Stock to You in the future pursuant to the terms of this Notice.
- (c) **Stockholder Rights.** You (including for purposes of this Section, Your legatee, distributee, guardian, legal representative, or other third party, as the Board or its designee may determine) will have no stockholder rights with respect to any shares of Common Stock subject to the award under this Notice until such shares of Common Stock are issued to You. Shares of Common Stock will be deemed issued on the date on which they are issued in Your name.
- (d) **Indemnification.** Each person who is or will have been a member of the Board or any committee of the Board will be indemnified and held harmless by the Company against and from any loss, cost, liability, or expense that may be imposed on or reasonably incurred by him in connection with or resulting from any claim, action, suit, or proceeding to which he may be made party or in which he may be involved by reason of any determination, interpretation, action taken or failure to act under this Notice and against and from any and all amounts paid by him in settlement thereof, with the Company's approval, or paid by him in satisfaction of any judgment in any such action, suit or proceeding against him, provided he will give the Company an opportunity, at its own expense, to handle and defend the same before he undertakes to handle and defend it on his own behalf. The foregoing right of indemnification will not be exclusive and will be independent of any other rights of indemnification to which

be independent of any other rights of indemnification to which such persons may be entitled under the Company's Certificate of Incorporation, By-laws, by contract, as a matter of law, or otherwise.

- (e) **Transferability of Your Restricted Stock Units.** No unearned Restricted Stock Unit under this Notice, may be sold, assigned, pledged, or transferred other than by will or the laws of descent and distribution and any attempt to do so will be void. To the extent and under such terms and conditions as determined by the Board or a subcommittee thereof vested with such authority, You may assign or transfer the Restricted Stock Units granted under this Notice without consideration (i) to Your spouse, children, or grandchildren (including any adopted and step children or grandchildren), parents, grandparents, or siblings, (ii) to a trust for Your benefit or for the benefit of one or more of the persons referred to in clause (i), (iii) to a partnership, limited liability company or corporation in which You or the persons referred to in clause (i) are the only partners, members or shareholders, or (iv) for charitable donations; provided that any such assignee shall be bound by and subject to all of the terms and conditions of this Notice and will, to the extent necessary, execute an agreement satisfactory to the Company evidencing such obligations; and provided further that the assignee will remain bound by the terms and conditions of this Notice. The Company shall cooperate with any assignee and the Company's transfer agent in effectuating any transfer permitted herein.
 - (f) **Cessation of Obligation.** The Company's liability will be defined only by this Notice. Upon distribution to You of all shares of Common Stock due under this Notice, all responsibilities and obligations of the Company will be fulfilled and You will have no further claims against the Company for further performance under this Notice.
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- (g) **Effect on Other Benefits.** The value of the shares of Common Stock covered by this Restricted Stock Unit award will not be included as compensation or earnings for purposes of any other compensation, Retirement, or benefit plan offered to Company associates.
- (h) **Administration.** This Notice will be administered by the Board, or its designee. The Board, or its designee, has full authority and discretion to decide all matters relating to the administration and interpretation of this Notice. The Board's, or its designee's, determinations will be final, conclusive, and binding on You and Your heirs, legatees and designees.
- (i) **Entire Notice and Governing Law.** This Notice constitutes the entire agreement between You and the Company with respect to the subject matter hereof and supersedes in its entirety all prior undertakings and agreements between You and the Company with respect to the subject matter hereof, and may not be modified adversely to Your interest except by means of a writing signed by the You and the Company. Nothing in this Notice (except as expressly provided herein) is intended to confer any rights or remedies on any person other than You and the Company. This Restricted Stock Unit award will be governed by the internal laws of the State of Delaware, regardless of the dictates of Delaware conflict of laws provisions.
- (j) **Interpretive Matters.** The captions and headings used in this Notice are inserted for convenience and will not be deemed a part of the award or this Notice for construction or interpretation.
- (k) **Notice.** For all purposes of this Notice, all communications required or permitted to be given hereunder will be in writing and will be deemed to have been duly given when hand delivered or dispatched by electronic facsimile transmission (with receipt thereof confirmed), or five business days after having been mailed by United States registered or certified mail, return receipt requested, postage prepaid, or three business days after having been sent by a nationally recognized overnight courier service, addressed to the Company at its principal executive office, c/o the Company's General Counsel, and to You at Your principal residence, or to such other address as any party may have furnished to the other in writing and in accordance herewith, except that notices of change of address will be effective only on receipt.
- (l) **Severability and Reformation.** The Company intends all provisions of this Notice to be enforced to the fullest extent permitted by law. Accordingly, should a court of competent jurisdiction determine that the scope of any provision of this Notice is too broad to be enforced as written, the court should reform the provision to such narrower scope as it determines to be enforceable. If, however, any provision of this Notice is held to be wholly illegal, invalid, or unenforceable under present or future law, such provision will be fully severable and severed, and this Notice will be construed and enforced as if such illegal, invalid, or unenforceable provision were never a part hereof, and the remaining provisions of this Notice will remain in full force and effect and will not be affected by the illegal, invalid, or unenforceable provision or by its severance.
- (m) **Counterparts.** This Notice may be executed in several counterparts, each of which will be deemed to be an original, but all of which together will constitute one and the same Notice.
- (n) **Amendments; Waivers.** This Notice may not be modified, amended, or terminated except by an instrument in writing, approved by the Company and signed by You and the Company. Failure on the part of either party to complain of any action or omission, breach or default on the part of the other party, no matter how long the same may continue, will never be deemed to be a waiver of any rights or remedies

never be deemed to be a waiver of any rights or remedies hereunder, at law or in equity. The Executive or the Company may waive compliance by the other party with any provision of this Notice that such other party was or is obligated to comply with or perform only through an executed writing; provided, however, that such waiver will not operate as a waiver of, or estoppel with respect to, any other or subsequent failure.

- (o) **No Inconsistent Actions.** The parties hereto will not voluntarily undertake or fail to undertake any action or course of action that is inconsistent with the provisions or essential intent of this Notice. Furthermore, it is the intent of the parties hereto to act in a fair and reasonable manner with respect to the interpretation and application of the provisions of this Notice.
 - (p) **No Issuance of Certificates.** To the extent this Notice provides for issuance of stock certificates to reflect the issuance of shares of Common Stock in connection with this award, the issuance may be effected on a non-certificate basis, to the extent not prohibited by applicable law or the applicable rules of any stock exchange on which the Common Stock is traded.
 - (q) **Compliance with Applicable Legal Requirements.** Notwithstanding anything contained herein to the contrary, the Company will not be required to sell or issue shares of Common Stock in connection with the award under this Notice if the issuance thereof would constitute a violation by You or the Company of any provisions of any law or regulation of any governmental authority or any national securities exchange or inter-dealer quotation system or other forum in which shares of Common Stock are quoted or traded (including without limitation Section 16 of the Securities Exchange Act of 1934); and, as a condition of any sale or issuance of shares of Common Stock under this Notice, the Board or its designee may require such agreements or undertakings, if any, as the Board or its designee may deem necessary or advisable to assure compliance with any such law or regulation. The grant and operation of this award, as evidenced by this Notice, and the
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obligation of the Company to sell and deliver shares of Common Stock, will be subject to all applicable federal and state laws, rules and regulations and to such approvals by any government or regulatory agency as may be required.



Notice of Stock Option Grant

Andrew Drexler		Employee ID
2015	Option Grant Price Per Share \$8.35	Number of NSO Shares Granted 78,358

Non-Qualified Stock Option Grant

Subject to the terms of this Notice of Stock Option Grant ("Notice"), the J. C. Penney Company, Inc. (the "Company") hereby grants Andrew Drexler ("You" or "Your") the number of Non-Qualified Stock Options listed above. The number of Non-Qualified Stock Options listed above was determined by dividing \$262,500, the agreed on value of Your Non-Qualified Stock Option award, by the stock option fair value (\$3.35) on June 11, 2015. The stock option fair value is determined by using a stock option pricing model that takes into consideration a number of factors such as exercise price volatility of our stock, option term, etc.

Definitions

For purposes of this Notice, unless the context requires otherwise, the following terms will have the meanings indicated below:

"Board" will mean the Board of Directors of the Company.

"Cause" will mean:

- (a) "cause" or "summary dismissal," as the case may be, as that term may be defined in any written agreement between You and the Company that may at any time be in effect; or
- (b) in the absence of a definition in a then-effective agreement between You and the Company (as determined by the Board), termination of Your employment with the Company on the occurrence of one or more of the following events:
 - (i) Your failure to substantially perform Your duties with the Company as determined by the Board or the Company;
 - (ii) Your willful failure or refusal to perform specific directives of the Board, or the Company, which directives are consistent with the scope and nature of Your duties and responsibilities;
 - (iii) Your conviction of a felony; or
 - (iv) A breach of Your fiduciary duty to the Company or any act or omission by You that (A) constitutes a violation of the Company's Statement of Business Ethics, (B) results in the assessment of a criminal penalty against the Company, (C) is otherwise in violation of any federal, state, local or foreign law or regulation (other than traffic violations and other similar misdemeanors), (D) adversely affects or could reasonably be expected to adversely affect the business reputation of the Company, or (E) otherwise constitutes willful misconduct, gross negligence, or any act of dishonesty or disloyalty.

"Change in Control" will generally have the meaning specified in section 409A of the Code, and any regulations and guidance issued thereunder and will include a change of ownership, a change of effective control, or a change in ownership of a substantial portion of the assets of the Company. Generally, subject to section 409A:

- (a) A change of ownership occurs on the date that a person or persons acting as a group acquires ownership of stock of the Company that together with stock held by such person or group constitutes more than 50 percent of the total fair market value or total voting power of the stock of the Company.
- (b) Notwithstanding whether the Company has undergone a

change of ownership, a change of effective control occurs (i)
when a person or persons acting as a group acquires within a
12-month period 30 percent of the total

voting power of the stock of the Company, or (ii) a majority of the Board is replaced within a 12-month period by directors whose appointment or election is not approved by a majority of the members of the Board before the appointment or election. A change in effective control also may occur in any transaction in which either of the two corporations involved in the transaction has a Change in Control as defined in this Notice (i.e., multiple change in control events). For purposes of this Notice, any acquisition by the Company of its own stock within a 12-month period, either through a transaction or series of transactions, that, immediately following such acquisition, results in the total voting power of a person or persons acting as a group to equal or exceed 30 percent of the total voting power of the stock of the Company will not constitute a change in effective control of the Company.

- (c) A change in ownership of a substantial portion of the Company's assets occurs when a person or persons acting as a group acquires assets that have a total gross fair market value equal to or more than 40 percent of the total gross fair market value of all assets of the Company immediately prior to the acquisition. A transfer of assets by the Company is not treated as a change in the ownership of such assets if the assets are transferred to:

(i) A shareholder of the Company (immediately before the asset transfer) in exchange for or with respect to its stock;

(ii) An entity, 50 percent or more of the total value or voting power of which is owned, directly or indirectly, by the Company;

(iii) A person, or more than one person acting as a group, that owns, directly or indirectly, 50 percent or more of the total value or voting power of all the outstanding stock of the Company; or

(iv) An entity, at least 50 percent of the total value or voting power of which is owned, directly or indirectly, by a person described in paragraph (iii), immediately above.

Persons will not be considered to be acting as a group solely because they purchase assets of the Company at the same time, or as a result of the same public offering; however, persons will be considered to be acting as a group if they are owners of a corporation that enters into a merger, consolidation, purchase or acquisition of assets, or similar business transaction with the Company.

"Code" will mean the Internal Revenue Code of 1986, as amended.

"Company" will mean J. C. Penney Company, Inc., the Corporation or any successor thereto, for whom the services are performed and with respect to whom the legally binding right to compensation arises, and all persons with whom the Corporation would be considered a single employer under Code section 414(b) (employees of controlled group of corporations), and all persons with whom the Corporation would be considered a single employer under Code section 414(c) (employees of partnerships, proprietorships, etc., under common control), using the "at least 50 percent" ownership standard, within the meaning of Code Section 409A and Treasury Regulation section 1.409A-1(h)(3) or any successor thereto.

"Common Stock" will mean the \$0.50 par value common stock of the Company.

"Corporation" will mean J. C. Penney Corporation, Inc.

"Date of Grant" shall mean June 11, 2015.

"Disability" will mean disability as defined in any then effective long-term disability plan maintained by the Company that covers You, or if such a plan does not exist at any relevant time, "Disability" means Your permanent and total disability within the meaning of section 22(e) (3) of the Code.

"Exercise Price" means \$3.35, which is the Fair Market Value of the Common Stock on June 11, 2015.

"Fair Market Value" of the Common Stock on any date will be the closing price on such date as reported in the composite transaction table covering transactions of New York Stock Exchange ("Exchange") listed securities, or if such Exchange is closed, or if the Common Stock does not trade on such date, the closing price reported in the composite transaction table on the last trading date immediately preceding such date, or such other amount as the Board may ascertain reasonably to represent such fair market value; provided however, that such determination will be in accordance with the requirements of Treasury Regulation section 1.409A-1(b)(5)(iv), or its successor.

"Good Reason" will mean, following a Change in Control, a condition resulting from any of the actions listed below taken by the Company that is directed at You without Your consent:

- (a) a material decrease in Your salary or incentive compensation opportunity (the amount paid at target as a percentage of salary under the Corporation's Management Incentive Compensation Program or any successor program then in effect); or
- (b) failure by the Company to pay You a material portion of Your current base salary, or incentive compensation within seven days of its due date; or
- (c) a material adverse change in reporting responsibilities, duties, or authority; or
- (d) a material diminution in the authority, duties, or responsibilities of the supervisor to whom You are required to report without a corresponding increase in Your authority, duties or responsibilities; or
- (e) a requirement that You report to a corporate officer or employee other than the Chief Executive Officer of the Company; or
- (f) a material diminution in the budget over which You retain authority; or
- (g) the Company requires You to change Your principal location of work to a location more than 50 miles from the location thereof immediately prior to such change; or
- (h) discontinuance of any material paid time off policy, fringe benefit, welfare benefit, incentive compensation, equity compensation, or retirement plan (without substantially equivalent compensating remuneration or a plan or policy providing substantially similar benefits) in which You participate or any action that materially reduces Your benefits or payments under such plans;

provided, however, that You must provide notice to the Corporation of the existence of any condition described above within 90 days of the initial existence of the condition, upon the notice of which the Corporation will have 30 days during which it or the Company may remedy the condition. Any separation from service as a result of a Good Reason condition must occur as of the later of (i) two years after the Change in Control, or (ii) 180 days after the initial existence of the condition described in (a) through (h) above that constitutes "Good Reason."

"Involuntary Separation from Service" will mean Your separation from service due to the independent exercise of the unilateral authority of the Company to terminate Your services, other than due to Your implicit or explicit request, where You were willing and able to continue performing services, within the meaning of Code Section 409A and Treasury Regulation section 1.409A-1(n)(1) or any successor thereto.

"Non-Qualified Stock Option" shall mean a right to purchase from the Company at any time not more than ten years following the Date of Grant, one share of Common Stock for the Exercise Price, which is not less than the Fair Market Value of a share of Common Stock on the Date of Grant, that is not intended to qualify as an "incentive stock option" that satisfies the requirements of section 422 of the Code. A Stock Option that is not intended to qualify as an Incentive Stock Option.

"Retirement" will mean Your termination of employment with the Company other than for Cause on or after the date You attain age 55 with at least 15 years of service, or on or after You attain age 60 with at least 10 years of service.

"Trading Date" shall mean a day on which the Company's Common Stock trades on the New York Stock Exchange ("NYSE").

Vesting of Your Non-Qualified Stock Option

This Non-Qualified Stock Option will generally become exercisable ("Vest") in three (3) equal installments over a three (3) year period on the first, second, and third anniversaries of the Date of Grant (the "Vest Date"), according to the schedule below. YOU MUST REMAIN CONTINUOUSLY EMPLOYED BY THE COMPANY THROUGH EACH VEST DATE (unless Your employment terminates due to Your Disability, death, or if You are party to a Termination Pay Agreement ("TPA"), an Involuntary Separation from Service without Cause as defined in the TPA) to Vest in in a particular installment of Your Non-Qualified Stock Option award; otherwise any unvested Non-Qualified Stock Options granted will be forfeited.

Vest Date	Percent Vesting
June 11, 2016	33-1/3%
June 11, 2017	33-1/3%
June 11, 2018	33-1/3%

Acceleration of Vesting

If Your employment terminates due to Retirement, Disability, or death or you experience an Involuntary Separation from Service other than for Cause as a result of a, job restructuring, reduction in force, or unit closing before any applicable Vest date of your Non-Qualified Stock Option, your Non-Qualified Stock Option will vest on a pro-rata basis. The pro-rata portion of your Non-Qualified Stock Option that will vest will be determined by multiplying the "Number of Stock Options Granted" from above by a fraction, the numerator of which is the number of months from the Grant Date to the effective date of your termination of employment, inclusive, and the denominator of which is 36. The number of Non-Qualified Stock Options that have already vested according to the terms herein, if any, will be subtracted from the prorated amount and the remaining prorated Non-Qualified Stock Options will become vested and immediately exercisable. Any Non-Qualified Stock Options that have not already vested or for which vesting is not accelerated will expire on such employment termination.

If you are party to a TPA, and you experience an Involuntary Separation from Service without Cause under, and as defined in that TPA (even if that Involuntary separation from Service without cause is a result of a, job restructuring, reduction in force, or unit closing), then the number of Non-Qualified Stock Options that will vest and become exercisable will be determined according to the terms of the underlying TPA. If the applicable TPA calls for pro-rata vesting of this Non-Qualified Stock Option then the pro-rata portion of your Non-Qualified Stock Option that will vest will be determined by multiplying the "Number of Stock Options Granted" from above by a fraction, the numerator of which is the number of months from the Grant Date to the effective date of your termination of employment, inclusive, and the denominator of which is 36. The number of Non-Qualified Stock Options that have already vested according to the terms herein, if any, will be subtracted from the prorated amount and the remaining prorated Non-Qualified Stock Options will become vested and immediately exercisable.

If following a Change in Control You experience an Involuntary Separation from Service other than for Cause or You voluntarily terminate your employment for Good Reason, Your Non-Qualified Stock Option will vest on a pro-rata basis. The pro-rata portion of your Non-Qualified Stock Option that will vest will be determined by multiplying the "Number of Stock Options Granted" from above by a fraction, the numerator of which is the number of months from the Grant Date to the effective date of your termination of Employment, inclusive, and the denominator of which is 36. The number of Non-Qualified Stock Options that have already vested according to the terms herein, if any, will be subtracted from the prorated amount and the remaining prorated Non-Qualified Stock Options will become vested and immediately exercisable. Any Non-Qualified Stock Options that have not already vested or for which vesting is not accelerated will expire on such employment termination.

In the case of any Involuntary Separation from Service other than for Cause, or, following a Change in Control, a voluntary termination of your employment for Good Reason, the delivery of any Non-Qualified Stock Options that vest in connection with such termination of employment will be subject to (a) the execution and delivery of a release in such form as may be required by the Company and (b) the expiration of the applicable revocation period for such release.

If You voluntarily terminate your employment, other than a voluntary termination of your employment for Good Reason following a Change in Control, or You experience an Involuntary Separation from Service for Cause then all vested but as yet unexercised and unvested Non-Qualified Stock Options will be cancelled on the effective date of Your employment termination as a result of the Involuntary Separation from Service for Cause or Your resignation.

You may designate a beneficiary to receive any shares of Common Stock in which You may vest if Your employment is terminated as a result of Your death by completing a beneficiary designation form in such form as may be prescribed from time to time by the Company. The beneficiary listed on Your beneficiary designation form will receive the vested portion of Your Non-Qualified Stock Option award in the case of the termination of employment due to Your death.

Expiration Date

Unless the right to purchase shares of Common Stock under this Non-Qualified Stock Option expires sooner, as described in the Post-Separation Exercise Period table, below, this Non-Qualified Stock Option shall expire and all rights to purchase shares of Common Stock hereunder shall cease on the tenth anniversary of the Date of Grant

Exercise of Non-Qualified Stock Options and Issuance of Shares of Common Stock

Exercise. Your Non-Qualified Stock Option may be exercised only by delivery to the Company, or its designee, of notice, in such form as shall be permitted by the Company or its designee, stating the number of shares of Common Stock being purchased, the method of payment, and such other matters as may be considered appropriate by the Company in connection with the issuance of shares of Non-Qualified Stock Option upon exercise of your Non-Qualified Stock Option, together with payment in full of the Exercise Price for the number of shares of Common Stock being purchased. The effective date of exercise of a Non-Qualified Stock Option (which in no event, may be beyond the expiration date of the Non-Qualified Stock Option) shall be (i) in connection with a sell order for the underlying stock that is a "Sell-to-Cover Order," a "Same-Day-Sale Exercise Order," a Limit Order, a "Good-till" Cancelled Order or the like, the date on which such sell order is actually executed, or (ii) in connection with an "Exercise and Hold" (cash exercise) transaction, the date the requisite funds are received by the Company at its home office in Plano, Texas or such other location as the Company may designate, or by a third party duly designated by the Company at the offices of such third party, in the manner determined by the Chief Executive Officer or the Chief Talent Officer, or their respective successors by title or office; provided, however, that if the date of exercise, as otherwise determined above is not a Trading Date, the date of exercise shall be deemed to be the next Trading Date. Further, an exercise instruction received after the close of the NYSE on a particular day it shall be deemed received as of the opening of the next Trading Date

Payment. Payment equal to the aggregate Exercise Price for the shares subject to your Non-Qualified Stock Option and for which notice of exercise has been provided by You to the Company, along with any applicable withholding taxes as described herein, shall be tendered in full, with the notice of exercise, in cash (by check) or by (i) the actual or constructive transfer to the Company of non-forfeitable, non-restricted shares of Common Stock that have been owned by You for more than six months prior to the date of exercise; (ii) using the net proceeds (after paying all selling fees) from the sale of some (the "Sell-to-Cover Exercise Method") or all (the "Same-Day-Sale Exercise Method"), of the shares of Common Stock received on the exercise of the Non-Qualified Stock Option, or from any arrangement pursuant to which You irrevocably instructs a broker-dealer to sell a sufficient portion of such shares to pay the Exercise Price, along with any applicable withholding taxes described herein, and related fees thereon and deliver the sale proceeds directly to the Company; (iii) through a "margin" commitment whereby You elect to exercise the Non-Qualified Stock Option and to pledge the shares of Common Stock so purchased to the NASD Dealer in a margin account as security for a loan from the NASD Dealer in the amount of the Exercise Price, and whereby the NASD Dealer commits upon receipt of such shares of Common Stock to forward the Exercise Price directly to the Company; (iv) by surrender for cancellation of shares of Common Stock at the Fair Market Value per share at the time of exercise under a "net exercise" arrangement; provided, however, that use of a "net exercise" arrangement cannot result in the Non-Qualified Stock Option being settled either in whole or in part for cash payable to the Associate Participant; (v) in accordance with such other procedures or in such other forms as the Company shall from time to time determine; or (vi) any combination of the above, each as may from time to time be permitted by the Company in its sole discretion.

In connection with the Sell-to-Cover Exercise Method or the Same-Day-Sale Exercise Method the value of the shares of Common Stock used in payment of the Exercise Price shall be the price at which the Common Stock was sold by the broker-dealer functioning under the

Common Stock was sold by the broker-dealer functioning under the Sell-to-Cover Exercise Method or the Same-Day-Sale Exercise Method on the effective date of exercise. Further, the amount of the proceeds to be delivered to the Company by the broker-dealer functioning under the Sell-to-Cover Exercise Method or the Same-Day-Sale Exercise Method shall be credited to the Common Stock account of the Company as consideration for the shares of Common Stock to be issued in accordance with the Sell-to-Cover Exercise or the Same-Day-Sale Exercise Method.

Issuance. On payment of all amounts due, the Company shall, subject to the provisions of paragraph (p) in the section below titled "Miscellaneous," cause certificates for the Common Stock then being purchased to be delivered as directed by You (or the person exercising Your Non-Qualified Stock Option in the event of Your death) at its principal business office promptly after the Exercise Date. The obligation of the Company to deliver shares of Common Stock shall, however, be subject to the condition that if at any time the Company shall determine in its discretion that the listing, registration or qualification of the Non-Qualified Stock Option or the Common Stock upon any securities exchange or inter-dealer quotation system or under any state or federal law, or the consent or approval of any governmental regulatory body, is necessary or desirable as a condition of, or in connection with, the Non-Qualified Stock Option or the issuance or purchase of shares of Common Stock thereunder, the Non-Qualified Stock Option may not be exercised in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Company.

Post-Separation Exercise Period

Reason For Separation From Service	Post-Separation Exercise Period
Involuntary Separation from Service for Cause	None
Voluntary Separation from Service (other than a Voluntary Separation from Service for Good Reason following a Change in Control)	90 days following the effective date of termination
Involuntary Separation from Service without Cause (but not a job elimination, job restructuring or reduction in force) or Voluntary Separation from Service for Good Reason following a Change in Control	One year following the effective date of termination
Involuntary Separation from Service without Cause as a result of a job elimination, job restructuring or reduction in force	Two years following the effective date of termination
Separation from Service as a result of Retirement, death, or Disability	Five years following the effective date of termination

Once the applicable post-termination exercise period described in the table above has passed, all unexercised Non-Qualified Stock Options will be cancelled and will no longer be exercisable. In all cases the post-separation exercise period described in the table above will not extend beyond the Non-Qualified Stock Option award's original Expiration Date.

Recoupment

Equity awards are subject to the Company's currently effective recoupment policy, as that policy may be amended from time to time by the Board or applicable statute or regulations. Under the recoupment policy, the Human Resources and Compensation Committee of the Board may require the Company, to the extent permitted by law, to cancel any of Your outstanding equity awards, including both vested and unvested awards, and/or to recover financial proceeds realized from the exercise of awards in the event of (i) a financial restatement arising out of the willful actions, including without limitation fraud or intentional misconduct, or gross negligence of any participant in the Company's compensation plans or programs, including without limitation, cash bonus and stock incentive plans, welfare plans, or deferred compensation plans, or (ii) other events as established by applicable statute or regulations.

Taxes and Withholding

The exercise of any Non-Qualified Stock Option and the related issuance of shares of Common Stock will be subject to the satisfaction of all applicable federal, state, and local income and employment tax withholding requirements and any rules and regulations adopted under any of the foregoing and, in the case of Participants who are subject to Section 16 of the Exchange Act, any restrictions set forth in Section 16 of the Exchange Act. Your withholding rate with respect to this award may not be higher than the minimum statutory rate.

Changes in Capitalization and Similar Changes

In the event of any change in the value or number of shares of Common Stock outstanding, or the assumption and conversion of this Non-Qualified Stock Option award, by reason of any stock dividend, stock split, dividend or distribution, whether in cash, shares or other property (other than a normal cash dividend), recapitalization, reorganization, merger, consolidation, split-up, spin-off, combination or exchange of shares, an equitable and proportionate adjustment will be made to the number and class of shares which may be subject to the Non-Qualified Stock Option in this Notice.

Miscellaneous

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- (a) **Dispute Resolution.** Any dispute between the parties under this Notice will be resolved (except as provided below) through informal arbitration by an arbitrator selected under the rules of the American Arbitration Association for arbitration of employment disputes (located in the city in which the Company's principal executive offices are based) and the arbitration will be conducted in that location under the rules of said Association. Each party will be entitled to present evidence and argument to the arbitrator. The arbitrator will have the right only to interpret and apply the provisions of this Notice and may not change any of its provisions. The arbitrator will permit reasonable pre-hearing discovery of facts, to the extent necessary to establish a claim or a defense to a claim, subject to supervision by the arbitrator. The determination of the arbitrator will be conclusive and binding upon the parties and judgment upon the same may be entered in any court having jurisdiction thereof. The arbitrator will give written notice to the parties stating the arbitrator's determination, and will furnish to each party a signed copy of such determination. The expenses of arbitration will be borne equally by the Company and You or as the arbitrator equitably determines consistent with the application of state or federal law; provided, however, that Your share of such expenses will not exceed the maximum permitted by law. To the extent applicable, in accordance with Code section 409A and Treasury Regulation
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section 1.409A-3(i)(1)(iv)(A) or any successor thereto, any payments or reimbursement of arbitration expenses which the Company is required to make under the foregoing provision will meet the requirements below. The Company will reimburse You for any such expenses, promptly upon delivery of reasonable documentation, provided, however, all invoices for reimbursement of expenses must be submitted to the Company and paid in a lump sum payment by the end of the calendar year following the calendar year in which the expense was incurred. All expenses must be incurred within a 20 year period following Your separation from service as defined in section 409A of the Code and the applicable Treasury regulations thereunder. The amount of expenses paid or eligible for reimbursement in one year under this Section governing the resolution of disputes under this Notice will not affect the expenses paid or eligible for reimbursement in any other taxable year. The right to payment or reimbursement under this Section governing the resolution of disputes under this Notice will not be subject to liquidation or exchange for another benefit.

Any arbitration or action pursuant to this Section governing the resolution of disputes under this Notice will be governed by and construed in accordance with the substantive laws of the State of Delaware and, where applicable, federal law, without giving effect to the principles of conflict of laws of such State. The mandatory arbitration provisions of this Section will supersede in their entirety the J.C. Penney Alternative, a dispute resolution program generally applicable to employment terminations.

- (b) **No Right to Continued Employment.** Nothing in this award will confer on You any right to continue in the employ of the Company or affect in any way the right of the Company to terminate Your employment without prior notice, at any time, for any reason, or for no reason.
- (b) **Unsecured General Creditor.** Neither You nor Your beneficiaries, heirs, successors, and assigns will have a legal or equitable right, interest or claim in any property or assets of the Company. For purposes of the payments under this Notice, any of the Company's assets will remain assets of the Company and the Company's obligation under this Notice will be merely that of an unfunded and unsecured promise to issue shares of Common Stock to You in the future pursuant to the terms of this Notice.
- (c) **Stockholder Rights.** You (including for purposes of this Section, Your legatee, distributee, guardian, legal representative, or other third party, as the Board or its designee may determine) will have no stockholder rights with respect to any shares of Common Stock subject to the award under this Notice until such shares of Common Stock are issued to You. Shares of Common Stock will be deemed issued on the date on which they are issued in Your name.
- (d) **Indemnification.** Each person who is or will have been a member of the Board or any committee of the Board will be indemnified and held harmless by the Company against and from any loss, cost, liability, or expense that may be imposed on or reasonably incurred by him in connection with or resulting from any claim, action, suit, or proceeding to which he may be made party or in which he may be involved by reason of any determination, interpretation, action taken or failure to act under this Notice and against and from any and all amounts paid by him in settlement thereof, with the Company's approval, or paid by him in satisfaction of any judgment in any such action, suit or proceeding against him, provided he will give the Company an opportunity, at its own expense, to handle and defend the same before he undertakes to handle and defend it on his own behalf. The foregoing right of indemnification will not be exclusive and will be independent of any other rights of indemnification to which such persons may be entitled under the Company's

such persons may be entitled under the Company's Certificate of Incorporation, By-laws, by contract, as a matter of law, or otherwise.

- (e) **Transferability of Your Non-Qualified Stock Option.** No vested or unvested Non-Qualified Stock Option that is the subject of this Notice may be assigned or transferred other than by will or the laws of descent and distribution or by such other means and on such terms as the Company, in its discretion, may approve from time to time, and no Non-Qualified Stock Option will be exercisable during Your lifetime except by You or Your guardian or legal representative, or other such third party as the Company may determine.
 - (f) **Cessation of Obligation.** The Company's liability will be defined only by this Notice. Upon distribution to You of all shares of Common Stock due under this Notice, all responsibilities and obligations of the Company will be fulfilled and You will have no further claims against the Company for further performance under this Notice.
 - (g) **Effect on Other Benefits.** The value of the shares of Common Stock covered by this Non-Qualified Stock Option award will not be included as compensation or earnings for purposes of any other compensation, Retirement, or benefit plan offered to Company associates.
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- (h) **Administration.** This Notice will be administered by the Board, or its designee. The Board, or its designee, has full authority and discretion to decide all matters relating to the administration and interpretation of this Notice. The Board's, or its designee's, determinations will be final, conclusive, and binding on You and Your heirs, legatees and designees.
- (i) **Entire Notice and Governing Law.** This Notice constitutes the entire agreement between You and the Company with respect to the subject matter hereof and supersedes in its entirety all prior undertakings and agreements between You and the Company with respect to the subject matter hereof, and may not be modified adversely to Your interest except by means of a writing signed by the You and the Company. Nothing in this Notice (except as expressly provided herein) is intended to confer any rights or remedies on any person other than You and the Company. This Non-Qualified Stock Option award will be governed by the internal laws of the State of Delaware, regardless of the dictates of Delaware conflict of laws provisions.
- (j) **Interpretive Matters.** The captions and headings used in this Notice are inserted for convenience and will not be deemed a part of the award or this Notice for construction or interpretation.
- (k) **Notice.** For all purposes of this Notice, all communications required or permitted to be given hereunder will be in writing and will be deemed to have been duly given when hand delivered or dispatched by electronic facsimile transmission (with receipt thereof confirmed), or five business days after having been mailed by United States registered or certified mail, return receipt requested, postage prepaid, or three business days after having been sent by a nationally recognized overnight courier service, addressed to the Company at its principal executive office, c/o the Company's General Counsel, and to You at Your principal residence, or to such other address as any party may have furnished to the other in writing and in accordance herewith, except that notices of change of address will be effective only on receipt.
- (l) **Severability and Reformation.** The Company intends all provisions of this Notice to be enforced to the fullest extent permitted by law. Accordingly, should a court of competent jurisdiction determine that the scope of any provision of this Notice is too broad to be enforced as written, the court should reform the provision to such narrower scope as it determines to be enforceable. If, however, any provision of this Notice is held to be wholly illegal, invalid, or unenforceable under present or future law, such provision will be fully severable and severed, and this Notice will be construed and enforced as if such illegal, invalid, or unenforceable provision were never a part hereof, and the remaining provisions of this Notice will remain in full force and effect and will not be affected by the illegal, invalid, or unenforceable provision or by its severance.
- (m) **Execution and Acknowledgement.** This Notice may be executed or acknowledged electronically or by such other means as may be permitted by the Company.
- (n) **Amendments; Waivers.** This Notice may not be modified, amended, or terminated except by an instrument in writing, approved by the Company and signed by You and the Company. Failure on the part of either party to complain of any action or omission, breach or default on the part of the other party, no matter how long the same may continue, will never be deemed to be a waiver of any rights or remedies hereunder, at law or in equity. The Executive or the Company may waive compliance by the other party with any provision of this Notice that such other party was or is obligated to comply with or perform only through an executed writing; provided, however, that such waiver will not operate as a waiver of, or estoppel with respect to, any other or subsequent failure

subsequent failure.

- (o) **No Inconsistent Actions.** The parties hereto will not voluntarily undertake or fail to undertake any action or course of action that is inconsistent with the provisions or essential intent of this Notice. Furthermore, it is the intent of the parties hereto to act in a fair and reasonable manner with respect to the interpretation and application of the provisions of this Notice.
 - (p) **No Issuance of Certificates.** To the extent this Notice provides for issuance of stock certificates to reflect the issuance of shares of Common Stock in connection with this award, the issuance may be effected on a non-certificate basis, to the extent not prohibited by applicable law or the applicable rules of any stock exchange on which the Common Stock is traded.
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(q) **Compliance with Applicable Legal Requirements.**

Notwithstanding anything contained herein to the contrary, the Company will not be required to sell or issue shares of Common Stock in connection with the award under this Notice if the issuance thereof would constitute a violation by You or the Company of any provisions of any law or regulation of any governmental authority or any national securities exchange or inter-dealer quotation system or other forum in which shares of Common Stock are quoted or traded (including without limitation Section 16 of the Securities Exchange Act of 1934); and, as a condition of any sale or issuance of shares of Common Stock under this Notice, the Board or its designee may require such agreements or undertakings, if any, as the Board or its designee may deem necessary or advisable to assure compliance with any such law or regulation. The grant and operation of this award, as evidenced by this Notice, and the obligation of the Company to sell and deliver shares of Common Stock, will be subject to all applicable federal and state laws, rules and regulations and to such approvals by any government or regulatory agency as may be required.



Stock Option Grant Agreement

[Participant Name]		Employee ID
Date]	Option Grant Price Per Share [Grant Price]	Number of NSO Shares Granted [Options Granted]

This Non-Qualified Stock Option ("NSO") Grant Agreement ("Agreement") gives you the right to purchase the total number of shares of Common Stock of 50 par value ("Common Stock") of J. C. Penney Company, Inc. ("Company") at the Option Grant Price Per Share shown above. This grant is subject to all the terms, rules, and conditions of the 2014 J. C. Penney Company, Inc. Long-Term Incentive Plan ("Plan") and the implementing resolutions ("Resolutions") approved by the Human Resources and Compensation Committee ("Committee") of the Company's Board of Directors ("Board"). Capitalized terms not otherwise defined herein shall have the respective meanings assigned to them in the Plan and the Resolutions. In order to receive the benefits under this Agreement, you must affirmatively accept the terms of this Agreement by signing it, whether physically or via alternative electronic means acceptable to the Company, acknowledging your acceptance of the terms under which this Stock Option award is granted. **You have 90 days from the date this Agreement is made available to you, either physically or electronically to accept the terms of this Agreement.** If you do not accept the terms of this Agreement in the applicable 90 day period the Stock Options that are the subject of this Agreement will be forfeited by you.

Vesting Terms

This NSO will generally become exercisable ("Vest") on [VESTING DATE] ("Vest Date"). You must remain continuously employed by the Company through the Vest date (unless you experience a separation from service due to your Retirement, Disability, death, job restructuring, reduction in force, or unit closing) to Vest in your NSO; otherwise the NSOs granted will be forfeited.

Separation from Service

If you experience a separation from service due to Retirement, Disability, death, job restructuring, reduction in force, or unit closing before the Vest date of your NSO, your NSO will vest on a pro-rata basis. The pro-rata portion of your NSO that will vest will be determined by multiplying the "Number of NSO Shares Granted" from above by a fraction, the numerator of which is the number of months from the Grant Date to the effective date of your termination of Employment, inclusive, and the denominator of which is [VESTING MONTHS]. Any NSOs for which vesting is not accelerated will expire on such separation from service.

If you experience a separation from service as a result of an Employment Termination then all unvested NSOs shall become fully vested on the date of any such Employment Termination.

Notwithstanding the foregoing, if you are party to a termination agreement, and your Employment is terminated due to an involuntary separation from service Cause under, and as defined in that termination agreement, and such separation from service is not an Employment Termination, then the number of NSOs that will become exercisable will be determined according to the terms of the underlying termination agreement subject to (a) the execution and delivery of a release in such form as may be required by the Company and (b) the expiration of the applicable revocation period for such release.

If your Employment terminates for any other reason then all unvested and unexercised NSOs will expire as of the date of your separation from service.

Please see the Plan for all terms, rules, and conditions, including the post-termination of Employment exercise period applicable to this NSO.

Covenants and Representations

By accepting this award you hereby acknowledge that your duties to the Company require access to and creation of the Company's confidential or proprietary information and trade secrets (collectively, the "Proprietary Information"). The Proprietary Information has been and will continue to be developed by the Company and its subsidiaries and affiliates at substantial cost and constitutes valuable and unique property of the Company. You further acknowledge that due to the

nature of your position, you will have access to Proprietary Information affecting plans and operations in every location in which the Company (and its subsidiaries and affiliates) does business or plans to do business throughout the world, and your decisions and recommendations on behalf of the Company may affect its operations throughout the world. **Accordingly, by accepting this award you acknowledge that the foregoing makes it reasonably necessary for the protection of the Company's business interests that you agree to the following covenants in connection with (i) your involuntary separation from service, as defined under Treasury regulation §1.409A-1(n), other than for Cause, or (ii) your voluntary separation from service:**

Confidentiality. You hereby covenant and agree that you shall not, without the prior written consent of the Company, during your employment with the Company or at any time thereafter disclose to any person not employed by the Company, or use in connection with engaging in competition with the Company, any Proprietary Information of the Company.

- (a) It is expressly understood and agreed that the Company's Proprietary Information is all nonpublic information relating to the Company's business, including but not limited to information, plans and strategies regarding suppliers, pricing, marketing, customers, hiring and terminations, employee performance and evaluations, internal reviews and investigations, short term and long range plans, acquisitions and divestitures, advertising, information systems, sales objectives and performance, as well as any other nonpublic information, the nondisclosure of which may provide a competitive or economic advantage to the Company. Proprietary Information shall not be deemed to have become public for purposes of this Agreement where it has been disclosed or made public by or through anyone acting in violation of a contractual, ethical, or legal responsibility to maintain its confidentiality.
- (b) In the event you receive a subpoena, court order or other summons that may require you to disclose Proprietary Information, on pain of civil or criminal penalty, you will promptly give notice to the Company of the subpoena or summons and provide the Company an opportunity to appear at the Company's expense and challenge the disclosure of its Proprietary Information, and you shall provide reasonable cooperation to the Company for purposes of affording the Company the opportunity to prevent the disclosure of the Company's Proprietary Information.
- (c) Nothing in this Agreement shall restrict you from, directly or indirectly, initiating communications with or responding to any inquiry from, or providing testimony before, the Securities and Exchange Commission ("SEC"), Financial Industries Regulatory Authority ("FINRA"), or any other self-regulatory organization or state or federal regulatory authority.

Nonsolicitation of Employees. You hereby covenant and agree that during your employment with the Company and, in the event you, as noted above, (i) have a voluntary separation from service, or (ii) have an involuntary separation from service other than for cause and receive benefits under your termination agreement, that for a period equal to (x) 18 months, if you are an Executive Vice President on the date of your separation from service, or (y) 12 months, if you are a Senior Vice President, thereafter, you shall not, without the prior written consent of the Company, on your own behalf or on the behalf of any person, firm or company, directly or indirectly, attempt to influence, persuade or induce, or assist any other person in so persuading or inducing, any of the employees of the Company (or any of its subsidiaries or affiliates) to give up his or her employment with the Company (or any of its subsidiaries or affiliates), and you shall not directly or indirectly solicit or hire employees of the Company (or any of its subsidiaries or affiliates) for employment with any other employer, without regard to whether that employer is a Competing Business, as defined below.

Noninterference with Business Relations. You hereby covenant and agree that during your employment with the Company and, in the event you, as noted above, (i) have a voluntary separation from service, or (ii) have an involuntary separation from service other than for cause and receive benefits under your termination agreement, that for a period equal to (x) 18 months, if you are an Executive Vice President on the date of your separation from service, or (y) 12 months, if you are a Senior Vice President, thereafter, you shall not, without the prior written consent of the Company, on your own behalf or on the behalf of any person, firm or company, directly or indirectly, attempt to influence, persuade or induce, or assist any other person in so persuading or inducing, any person, firm or company to cease doing business with, reduce its business with, or decline to commence a business relationship with, the Company (or any of its subsidiaries or affiliates).

Noncompetition.

- (a) You hereby covenant and agree that during your employment with the Company and, in the event you, as noted above, (i) have a voluntary separation from service, or (ii) have an involuntary separation from service other than for cause and receive benefits under your termination agreement, that for a period equal to (x) 18 months, if you are an Executive Vice President on the date of your separation from service, or (y) 12 months, if you are a Senior Vice President, thereafter, you will not, except as otherwise provided for below, undertake any work for a Competing Business, as defined in (b).
- (b) As used in this Agreement, the term "Competing Business" shall specifically include, but not be limited to:
 - (i) Kohl's Corporation, Macy's, Inc., Target Corporation, The TJX Companies, Inc., Ross Stores, Inc., Wal-Mart Stores, Inc., Amazon.com, Inc., and any of their respective subsidiaries or affiliates, or
 - (ii) any business (A) that, at any time during the Severance Period, competes directly with the Corporation through sales of merchandise or services in the United States or another country or commonwealth in which the Corporation, including its divisions, affiliates and licensees, operates, and (B) where the Executive performs services, whether paid or unpaid, in any capacity, including as an officer, director, owner, consultant, employee, agent, or representative, where such services involve the performance of (x) substantially similar duties or oversight responsibilities as those performed by the Executive at any time during the 12-month period preceding the Executive's termination from the Corporation for any reason, or (y) greater duties or responsibilities that include such substantially similar duties or oversight responsibilities as those referred to in (x); or
 - (iii) any business that provides buying office or sourcing services to any business of the types referred to in this section (b).
- (c) For purposes of this section, the restrictions on working for a Competing Business shall include working at any location within the United States or Puerto Rico. You acknowledge that the Company is a national retailer with operations throughout the United States and Puerto Rico and that the duties and responsibilities that you perform, or will perform, for the Company directly impact the Company's ability to compete with a Competing Business in a nationwide marketplace. You further acknowledge that you have, or will have, access to sensitive and confidential information of the Company that relates to the Company's ability to compete in a nationwide marketplace.

Non-Disparagement. You covenant that you will not make any statement or representation, oral or written, that could adversely affect the reputation, image, goodwill or commercial interests of the Company. This provision will be construed as broadly as state or federal law permits, but no more broadly than permitted by state or federal law. This provision is not intended to and does not prohibit you from participating in a governmental investigation concerning the Company, or providing truthful testimony in any lawsuit, arbitration, mediation, negotiation or other matter. You agree not to incur any expenses, obligations or liabilities on behalf of the Company.

Enforcement and Injunctive Relief. In addition to any other remedies to which the Company is entitled, on the Company's becoming aware that you have breached, or potentially have breached, any of the Covenants and Representations set forth in this Agreement, above, the Company shall have a right to seek recoupment of the portion of any award under the Plan, or any plan or program that is a successor

to the Plan, that (i) vested within the 12 months prior to the date of your voluntary separation from service or your involuntary separation from service other than for cause, each under and as defined in your termination agreement, and (ii) includes and is subject to these Covenants and Representations, including any proceeds or value received from the exercise or sale of that portion of any such awards. Further, if you shall breach any of the covenants contained herein, the Company may recover from you all such damages as it may be entitled to under the terms of this Agreement, any other agreement between the Company and you, at law, or in equity. In addition, you acknowledge that any such breach of the Covenants and Representations in the Agreement is likely to result in immediate and irreparable harm to the Company for which money damages are likely to be inadequate. Accordingly, you consent to injunctive and other appropriate equitable relief without the necessity of bond in excess of \$500.00 upon the institution of proceedings therefor by the Company in order to protect the Company's rights hereunder.

Recoupment

As provided in Section 12.19 of the Plan this Award is subject to any compensation recoupment policy adopted by the Board or the Committee prior to or after the effective date of the Plan, and as such policy may be amended from time to time after its adoption.

This stock option grant does not constitute an employment contract. It does not guarantee employment for the length of the vesting period or for any portion thereof.



Restricted Stock Unit Grant Agreement

Employee Name]	Employee ID
	Number of Restricted Stock Units Granted [Number of Units Granted]

Restricted Stock Unit Grant

You have been granted the number of Restricted Stock Units listed above in recognition of your expected future contributions to the success of J. C. Penney Company, Inc. ("Company"). Each Restricted Stock Unit shall at all times be deemed to have a value equal to the then-current fair market value of one share of J. C. Penney Company, Inc. Common Stock of 50¢ par value ("Common Stock"). This grant is subject to all the terms, rules, and conditions of the 2014 J. C. Penney Company, Inc. Long-Term Incentive Plan ("Plan") and the implementing resolutions ("Resolutions") approved by the Human Resources and Compensation Committee ("Committee") of the Company's Board of Directors ("Board"). Capitalized terms not otherwise defined herein shall have the respective meanings assigned to them in the Plan and the Resolutions. In order to receive the benefits under this Restricted Stock Unit Grant Agreement ("Agreement"), you must affirmatively accept the terms of this Agreement by signing it, whether physically or via alternative electronic means acceptable to the Company, acknowledging your acceptance of the terms under which this Restricted Stock Unit award is granted. **You have 90 days from the date this Agreement is made available to you, either physically or electronically to accept the terms of this Agreement.** If you do not accept the terms of this Agreement in the applicable 90 day period the Restricted Stock Units that are the subject of this Agreement will be forfeited by you.

Vesting of Your Restricted Stock Units

The Restricted Stock Units shall vest and the restrictions on your Restricted Stock Unit shall lapse on [VESTING DATE] ("Vest Date"), provided you remain continuously employed by the Company through the Vest Date (unless your Employment terminates due to your Retirement, Disability, death, job restructuring, reduction in force, or unit closing).

Your vested Restricted Stock Units shall be distributed in shares of Common Stock as soon as practicable on or following the earlier of (i) your separation from service as a result of (A) your Retirement, Disability, or death, or (B) a job restructuring, reduction in force, or unit closing, or (ii) the Vest Date provided above. Notwithstanding the foregoing, if you are a specified employee as defined under Section 409A of the Code and the related Treasury regulations thereunder, your award is subject to Section 409A of the Code, and you experience a separation from service as a result of your Retirement your vested Restricted Stock Units shall be paid in shares of Common Stock as soon as practicable following the earlier of (i) the date that is six months following your separation from service due to Retirement (ii) the date of your death, or (iii) any applicable Vest Date provided above. You shall not be allowed to defer the payment of your shares of Common Stock to a later date.

Dividend Equivalents

You shall not have any rights as a stockholder until your Restricted Stock Units vest and you are issued shares of Common Stock in cancellation of the vested Restricted Stock Units. If the Company declares a dividend, you will accrue dividend equivalents on the unvested Restricted Stock Units in the amount of any quarterly dividend declared on the Common Stock. Dividend equivalents shall continue to accrue until your Restricted Stock Units vest and you receive actual shares of Common Stock in cancellation of the vested Restricted Stock Units. The dividend equivalents shall be credited as additional Restricted Stock Units in your account to be paid in shares of Common Stock on the vesting date along with the Restricted Stock Units to which they relate. The number of additional Restricted Stock Units to be credited to your account shall be determined by dividing

Units to be credited to your account shall be determined by dividing the aggregate dividend payable with respect to the number of Restricted Stock Units in your account by the closing price of the Common Stock on the New York Stock Exchange on the dividend payment date. The additional Restricted Stock Units credited to your account are subject to all of the terms and conditions of this Restricted Stock Unit award and the Plan and you shall forfeit your additional Restricted Stock Units in the event that you forfeit the Restricted Stock Units to which they relate.

Separation from Service

If you experience a separation from service due to (i) Retirement, Disability, or death, or (ii) job restructuring, reduction in force, or unit closing prior to the Vest Date, you shall be entitled to a prorated number of Restricted Stock Units. The proration shall be equal to a fraction, the numerator of which is the number of months from the Date of Grant to the effective date of your termination of service, inclusive, and the denominator of which is [VESTING MONTHS]. The resulting number of Restricted Stock Units to which you are entitled will be distributed as provided in "Vesting of Your Restricted Stock Units" above. Any Restricted Stock Units for which vesting is not accelerated shall be cancelled on such separation from service.

If you experience a separation from service as a result of an Employment Termination then all unvested Restricted Stock Units shall become fully vested on the date of any such Employment Termination. Any shares that vest following an Employment Termination will be distributed as provided in the "Vesting of Your Restricted Stock Units" section of this Notice.

Notwithstanding the foregoing, if you are party to a termination agreement, and your Employment is terminated due to an involuntary separation from service without cause (or summary dismissal) under, and as defined in that termination agreement, and such separation from service is not an Employment Termination, then the number of Restricted Stock Units that will vest will be determined according to the terms of the underlying termination agreement subject to (i) the execution and delivery of a release in such form as may be required by the Company, (ii) the expiration of the applicable revocation period for such release. Any shares that vest under a termination agreement will be distributed as provided in the "Vesting of Your Restricted Stock Units" section of this Notice.

If your employment terminates for any reason other than those specified above, any unvested Restricted Stock Units shall be forfeited by you and cancelled on the effective date of termination.

Covenants and Representations

By accepting this award you hereby acknowledge that your duties to the Company require access to and creation of the Company's confidential or proprietary information and trade secrets (collectively, the "Proprietary Information"). The Proprietary Information has been and will continue to be developed by the Company and its subsidiaries and affiliates at substantial cost and constitutes valuable and unique property of the Company. You further acknowledge that due to the nature of your position, you will have access to Proprietary Information affecting plans and operations in every location in which the Company (and its subsidiaries and affiliates) does business or plans to do business throughout the world, and your decisions and recommendations on behalf of the Company may affect its operations throughout the world. **Accordingly, by accepting this award you acknowledge that the foregoing makes it reasonably necessary for the protection of the Company's business interests that you agree to the following covenants in connection with (i) your involuntary separation from service, as defined under Treasury regulation §1.409A-1(n), other than for Cause, or (ii) your voluntary separation from service:**

Confidentiality. You hereby covenant and agree that you shall not, without the prior written consent of the Company, during your employment with the Company or at any time thereafter disclose to any person not employed by the Company, or use in connection with engaging in competition with the Company, any Proprietary Information of the Company.

- (a) It is expressly understood and agreed that the Company's Proprietary Information is all nonpublic information relating to the Company's business, including but not limited to information, plans and strategies regarding suppliers, pricing, marketing, customers, hiring and terminations, employee performance and evaluations, internal reviews and investigations, short term and long range plans, acquisitions and divestitures, advertising, information systems, sales objectives and performance, as well as any other nonpublic information, the nondisclosure of which may provide a competitive or economic advantage to the Company. Proprietary Information shall not be deemed to have become public for purposes of this Agreement where it has been disclosed or made public by or through anyone acting in violation of a contractual, ethical, or legal responsibility to maintain its confidentiality.
- (b) In the event you receive a subpoena, court order or other summons that may require you to disclose Proprietary Information, on pain of civil or criminal penalty, you will promptly give notice to the Company of the subpoena or summons and provide the Company an opportunity to appear at the Company's expense and challenge the

disclosure of its Proprietary Information, and you shall provide reasonable cooperation to the Company for purposes of affording the Company the opportunity to prevent the disclosure of the Company's Proprietary Information.

- (c) Nothing in this Agreement shall restrict you from, directly or indirectly, initiating communications with or responding to any inquiry from, or providing testimony before, the Securities and Exchange Commission ("SEC"), Financial Industries Regulatory Authority ("FINRA"), or any other self-regulatory organization or state or federal regulatory authority.

Nonsolicitation of Employees. You hereby covenant and agree that during your employment with the Company and, in the event you, as noted above, (i) have a voluntary separation from service, or (ii) have an involuntary separation from service other than for cause and receive benefits under your termination agreement, that for a period equal to (x) 18 months, if you are an Executive Vice President on the date of your separation from service, or (y) 12 months, if you are a Senior Vice President, thereafter, you shall not, without the prior written consent of the Company, on your own behalf or on the behalf of any person, firm or company, directly or indirectly, attempt to influence, persuade or induce, or assist any other person in so persuading or inducing, any of the employees of the Company (or any of its subsidiaries or affiliates) to give up his or her employment with the Company (or any of its subsidiaries or affiliates), and you shall not directly or indirectly solicit or hire employees of the Company (or any of its subsidiaries or affiliates) for employment with any other employer, without regard to whether that employer is a Competing Business, as defined below.

Noninterference with Business Relations. You hereby covenant and agree that during your employment with the Company and, in the event you, as noted above, (i) have a voluntary separation from service, or (ii) have an involuntary separation from service other than for cause and receive benefits under your termination agreement, that for a period equal to (x) 18 months, if you are an Executive Vice President on the date of your separation from service, or (y) 12 months, if you are a Senior Vice President, thereafter, you shall not, without the prior written consent of the Company, on your own behalf or on the behalf of any person, firm or company, directly or indirectly, attempt to influence, persuade or induce, or assist any other person in so persuading or inducing, any person, firm or company to cease doing business with, reduce its business with, or decline to commence a business relationship with, the Company (or any of its subsidiaries or affiliates).

Noncompetition.

- (a) You hereby covenant and agree that during your employment with the Company and, in the event you, as noted above, (i) have a voluntary separation from service, or (ii) have an involuntary separation from service other than for cause and receive benefits under your termination agreement, that for a period equal to (x) 18 months, if you are an Executive Vice President on the date of your separation from service, or (y) 12 months, if you are a Senior Vice President, thereafter, you will not, except as otherwise provided for below, undertake any work for a Competing Business, as defined in (b).
- (b) As used in this Agreement, the term "Competing Business" shall specifically include, but not be limited to:
 - (i) Kohl's Corporation, Macy's, Inc., Target Corporation, The TJX Companies, Inc., Ross Stores, Inc., Wal-Mart Stores, Inc, Amazon.com, Inc., and any of their respective subsidiaries or affiliates, or
 - (ii) any business (A) that, at any time during the Severance Period, competes directly with the Corporation through sales of merchandise or services in the United States or another country or commonwealth in which the Corporation, including its divisions, affiliates and licensees, operates, and (B) where the Executive performs services, whether paid or unpaid, in any capacity, including as an officer, director, owner, consultant, employee, agent, or representative, where such services involve the performance of (x) substantially similar duties or oversight responsibilities as those performed by the Executive at any time during the 12-month period preceding the Executive's termination from the Corporation for any reason, or (y) greater duties or responsibilities that include such substantially similar duties or oversight responsibilities as those referred to in (x); or
 - (iii) any business that provides buying office or sourcing services to any business of the types referred to in this section (b).
- (c) For purposes of this section, the restrictions on working for a Competing Business shall include working at any location within the United States or Puerto Rico. You acknowledge that the Company is a national retailer with operations throughout the United States and Puerto Rico and that the duties and responsibilities that you perform, or will perform, for the Company directly impact the Company's ability to compete with a Competing Business in a nationwide marketplace. You further acknowledge that you have, or will have, access to sensitive and confidential information of the Company that relates to the Company's ability to compete in a nationwide marketplace.

Non-Disparagement. You covenant that you will not make any statement or representation, oral or written, that could adversely affect the reputation, image, goodwill or commercial interests of the

the reputation, image, goodwill or commercial interests of the Company. This provision will be construed as broadly as state or federal law permits, but no more broadly than permitted by state or federal law. This provision is not intended to and does not prohibit you from participating in a governmental investigation concerning the Company, or providing truthful testimony in any lawsuit, arbitration, mediation, negotiation or other matter. You agree not to incur any expenses, obligations or liabilities on behalf of the Company.

Enforcement and Injunctive Relief. In addition to any other remedies to which the Company is entitled, on the Company's becoming aware that you have breached, or potentially have breached, any of the Covenants and Representations set forth in this Agreement, above, the Company shall have a right to seek recoupment of the portion of any award under the Plan, or any plan or program that is a successor to the Plan, that (i) vested within the 12 months prior to the date of your voluntary separation from service or your involuntary separation from service other than for cause, each under and as defined in your termination agreement, and (ii) includes and is subject to these Covenants and Representations, including any proceeds or value received from the exercise or sale of that portion of any such awards. Further, if you shall breach any of the covenants contained herein, the Company may recover from you all such damages as it may be entitled to under the terms of this Agreement, any other agreement between the Company and you, at law, or in equity. In addition, you acknowledge that any such breach of the Covenants and Representations in the Agreement is likely to result in immediate and irreparable harm to the Company for which money damages are likely to be inadequate. Accordingly, you consent to injunctive and other appropriate equitable relief without the necessity of bond in excess of \$500.00 upon the institution of proceedings therefor by the Company in order to protect the Company's rights hereunder.

Recoupment

As provided in Section 12.19 of the Plan this Award is subject to any compensation recoupment policy adopted by the Board or the Committee prior to or after the effective date of the Plan, and as such policy may be amended from time to time after its adoption.

This Restricted Stock Unit grant does not constitute an employment contract. It does not guarantee employment for the length of the vesting period or for any portion thereof.

J.C. Penney Company, Inc.
Computation of Ratios of Earnings to Fixed Charges
(Unaudited)

	52 Weeks Ended 1/30/2016	52 Weeks Ended 1/31/2015	52 Weeks Ended 2/1/2014	53 Weeks Ended 2/2/2013	52 Weeks Ended 1/28/2012
<i>(\$ in millions)</i>					
Income/(loss) from continuing operations before income taxes	\$ (504)	\$ (694)	\$ (1,708)	\$ (1,227)	\$ (428)
Fixed charges:					
Net interest expense	405	406	352	226	227
Interest income included in net interest	—	—	1	6	8
Loss on extinguishment of debt, bond premiums and unamortized costs	10	34	114	—	—
Estimated interest within rental expense	94	98	99	101	104
Total fixed charges	509	538	566	333	339
Total earnings available for fixed charges	\$ 5	\$ (156)	\$ (1,142)	\$ (894)	\$ (89)
Ratio of earnings to fixed charges	—	(0.3)	(2.0)	(2.7)	(0.3)
Coverage deficiency	504	694	1,708	1,227	428

March 16, 2016

J. C. Penney Company, Inc.
Plano, Texas

Ladies and Gentlemen:

We have audited the consolidated balance sheets of J. C. Penney Company, Inc. (the Company) as of January 30, 2016 and January 31, 2015, and the related consolidated statements of income, comprehensive income/(loss), stockholders' equity, and cash flows for each of the years in the three-year period ended January 30, 2016, and have reported thereon under date of March 16, 2016. The aforementioned consolidated financial statements and our audit report thereon are included in the Company's annual report on Form 10-K for the year ended January 30, 2016. As stated in Note 3 to the consolidated financial statements, in 2015 the Company changed its method of accounting for pension and postretirement benefits to immediately recognize actuarial gains and losses in its operating results in the year in which they occur, to the extent they exceed 10 percent of the greater of the fair value of plan assets or the plans' projected benefit obligation, referred to as the corridor. Note 3 also states that the newly adopted accounting principle is preferable as it eliminates the delay in recognition of actuarial gains and losses outside the corridor. In accordance with your request, we have reviewed and discussed with Company officials the circumstances and business judgment and planning upon which the decision to make this change in the method of accounting was based.

With regard to the aforementioned accounting change, authoritative criteria have not been established for evaluating the preferability of one acceptable method of accounting over another acceptable method. However, for purposes of the Company's compliance with the requirements of the Securities and Exchange Commission, we are furnishing this letter.

Based on our review and discussion, with reliance on management's business judgment and planning, we concur that the newly adopted method of accounting is preferable in the Company's circumstances.

Very truly yours,

/s/ KPMG LLP

SUBSIDIARIES OF THE REGISTRANT

Set forth below is a direct subsidiary of the Company as of March 16, 2016. All of the voting securities of this subsidiary are owned by the Company.

Subsidiaries

J. C. Penney Corporation, Inc. (Delaware)

The names of other subsidiaries have been omitted because these unnamed subsidiaries, considered in the aggregate as a single subsidiary, do not constitute a significant subsidiary.

Consent of Independent Registered Public Accounting Firm

The Board of Directors

J. C. Penney Company, Inc.:

We consent to the incorporation by reference in the registration statements on form S-8 (Registration Nos. 33-28390-99, 33-66070-99, 333-33343-99, 333-27329-99, 333-62066-99, 333-159349, 333-182202, 333-182825, 333-125356, 333-196151, and 333-208059) and form S-3 (Registration No. 333-188106-01) of J. C. Penney Company, Inc. of our reports dated March 16, 2016, with respect to the consolidated balance sheets of J. C. Penney Company, Inc. as of January 30, 2016 and January 31, 2015, and the related consolidated statements of operations, comprehensive income/ (loss), stockholders' equity, and cash flows for each of the years in the three-year period ended January 30, 2016, and the effectiveness of internal control over financial reporting as of January 30, 2016, which reports appear in the January 30, 2016 annual report on Form 10-K of J. C. Penney Company, Inc.

Our report dated March 16, 2016, on the consolidated balance sheets of J. C. Penney Company, Inc. as of January 30, 2016 and January 31, 2015, and the related consolidated statements of operations, comprehensive income/ (loss), stockholders' equity, and cash flows for each of the years in the three-year period ended January 30, 2016, contains an explanatory paragraph that states the Company has elected to change its method of accounting for pension and postretirement benefits to immediately recognize actuarial gains and losses in its operating results in the year in which they occur, to the extent they exceed 10 percent of the greater of the fair value of plan assets or the plans' projected benefit obligation, referred to as the corridor.

/s/ KPMG LLP

Dallas, Texas
March 16, 2016

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS THAT each of the undersigned directors and officers of J. C. PENNEY COMPANY, INC., a Delaware corporation, which will file with the Securities and Exchange Commission, Washington, D.C. ("Commission"), under the provisions of the Securities Exchange Act of 1934, as amended, its Annual Report on Form 10-K for the fiscal year ended January 30, 2016 ("Annual Report"), hereby constitutes and appoints Andrew Drexler, Janet Link, and Edward Record, and each of them, his or her true and lawful attorneys-in-fact and agents, with full power to each of them to act without the others, for him or her and in his or her name, place, and stead, in any and all capacities, to sign said Annual Report, which is about to be filed, and any and all subsequent amendments to said Annual Report, and to file said Annual Report so signed, and any and all subsequent amendments thereto so signed, with all exhibits thereto, and any and all documents in connection therewith, and to appear before the Commission in connection with any matter relating to said Annual Report, hereby granting to the attorneys-in-fact and agents, and each of them, full power and authority to do and perform any and all acts and things requisite and necessary to be done in and about the premises as fully and to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that such attorneys-in-fact and agents, or any of them, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned have executed this Power of Attorney as of the 16th day of March, 2016.

/s/ Myron E. Ullman, III

Myron E. Ullman, III
Chairman of the Board; Director

/s/ Marvin R. Ellison

Marvin R. Ellison
Chief Executive Officer; Director

(principal executive officer)

/s/ Edward J. Record

Edward J. Record
Executive Vice President and
Chief Financial Officer
(principal financial officer)

/s/ Andrew S. Drexler

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

/s/ Colleen C. Barrett

Colleen C. Barrett
Director

/s/ Thomas J. Engibous

Thomas J. Engibous
Director

/s/ Amanda Ginsberg

Amanda Ginsberg
Director

/s/ B. Craig Owens

B. Craig Owens
Director

/s/ Leonard H. Roberts

Leonard H. Roberts
Director

/s/ Stephen I. Sadove

Stephen I. Sadove
Director

/s/ Javier G. Teruel

Javier G. Teruel
Director

/s/ R. Gerald Turner

R. Gerald Turner
Director

/s/ Ronald W. Tysoe

Ronald W. Tysoe
Director

CERTIFICATION

I, Marvin R. Ellison, certify that:

1. I have reviewed this annual report on Form 10-K of J. C. Penney Company, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 16, 2016

/s/ Marvin R. Ellison

Marvin R. Ellison

Chief Executive Officer

CERTIFICATION

I, Edward J. Record, certify that:

1. I have reviewed this annual report on Form 10-K of J. C. Penney Company, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 16, 2016

/s/ Edward J. Record

Edward J. Record

Executive Vice President and
Chief Financial Officer

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

In connection with the Annual Report of J. C. Penney Company, Inc. (the “Company”) on Form 10-K for the period ending January 30, 2016 (the “Report”), I, Marvin R. Ellison, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

DATED this 16th day of March 2016.

/s/ Marvin R. Ellison

Marvin R. Ellison
Chief Executive Officer

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

In connection with the Annual Report of J. C. Penney Company, Inc. (the “Company”) on Form 10-K for the period ending January 30, 2016 (the “Report”), I, Edward J. Record, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

DATED this 16th day of March 2016.

/s/ Edward J. Record

Edward J. Record

Executive Vice President and
Chief Financial Officer

