

J C PENNEY CO INC  
Form PRE 14A  
March 10, 2017  
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**SCHEDULE 14A**

**(Rule 14a-101)**

**Proxy Statement Pursuant to Section 14(a) of the  
Securities Exchange Act of 1934**

Filed by the Registrant

Filed by a party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material under §240.14a-12

**J. C. Penney Company, Inc.**

**(Name of Registrant as Specified in Its Charter)**

**(Name of Person(s) Filing Proxy Statement, if other than the Registrant)**

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

- (1) Title of each class of securities to which transaction applies:
- (2) Aggregate number of securities to which transaction applies:
- (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
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Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

- (1) Amount Previously Paid:
- (2) Form, Schedule or Registration Statement No.:
- (3) Filing Party:
- (4) Date Filed:

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NOTICE OF 2017 ANNUAL MEETING OF STOCKHOLDERS AND PROXY STATEMENT

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**PRELIMINARY PROXY STATEMENT**

**SUBJECT TO COMPLETION**

March [24], 2017

Dear Stockholders:

On behalf of your Board of Directors, I want to take this opportunity to invite you to attend our 2017 Annual Meeting of Stockholders. The meeting will be held on Friday, May 19, 2017, at 10:00 A.M., local time, at the JCPenney Home Office, located at 6501 Legacy Drive, Plano, Texas 75024. We will be asking you to vote on and to support several proposals for our Company and it is important that your shares be represented. We urge you to vote your shares via the toll-free telephone number, over the Internet, or by mail, as provided in the enclosed materials.

Our strategic framework is focused on private brands, omnichannel and increasing revenue per customer. We believe that these three pillars of our framework provide the foundation for future growth at JCPenney.

With our private brands, we believe we can differentiate ourselves from our competitors and the overall marketplace. Our private brands also provide value to our customers in the form of products with style and quality at an attractive price point. We have a team of more than 200 textile, technical and fashion designers, as well as one of the industry's most experienced sourcing organizations, to better ensure that the appeal of our private brand portfolio remains strong and compelling throughout our merchandise selection.

In omnichannel, we believe we have the right foundation to enhance our capabilities based on our heritage as a catalog retailer. The future of retail requires that we become a world-class omnichannel retailer, creating a seamless connection between our physical stores and our online business. To that end, we are focused on improving our mobile app, providing more fulfillment choices to the customer and expanding our merchandise assortment online.

Further, we intend to grow revenue per customer by increasing the frequency of customer visits and the amount they spend on every transaction. We have several growth initiatives underway to drive this initiative. For instance, in beauty, we plan to continue opening new Sephora inside JCPenney locations, as well as expand highly-productive existing locations. We are also enhancing our salon business through our exclusive collaboration with InStyle Magazine and the addition of new online booking functionality for our salon clients.

We're also continuing to bolster our Home refresh growth opportunity with the introduction of appliance showrooms in over 500 locations and at jcpenney.com and home services this spring. With the current trend of consumer investment in homes, we believe these strategies will only amplify our compelling selection of bed, bath and home furnishings and accessories. Moreover, these initiatives reinforce our retail strategy of pivoting toward less weather sensitive categories.

Our growth initiatives not only serve the needs of our value-oriented customer, but also provide us with differentiation from our traditional competitors. Our strategies are intended to better insulate us from pure-play e-commerce competition, while allowing JCPenney to capitalize on market share made available by struggling mall-based competitors.

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While we delivered on our goal of returning to profitability in 2016, we have announced proactive actions with our store portfolio to optimize our retail operations for the future. We believe it is essential to retain those locations that present the best expression of the JCPenney brand and function as a seamless extension of the omnichannel experience. Our decision to close approximately 130 to 140 stores will allow us to raise the overall brand standard of JCPenney and allocate capital to a smaller store base, granting us the ability to implement our growth initiatives in a larger percent of stores.

Thank you again for your support. We are excited about the initiatives underway at JCPenney and are optimistic about the prospects for our Company.

Marvin R. Ellison

*Chairman of the Board and Chief Executive Officer*

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**J. C. PENNEY COMPANY, INC.**

**6501 Legacy Drive**

**Plano, Texas 75024-3698**

**J. C. PENNEY COMPANY, INC.**

**Notice of 2017 Annual Meeting of Stockholders**

**Date and Time:** Friday, May 19, 2017

10:00 A.M., local time

**Place:** JCPenney Home Office

6501 Legacy Drive

Plano, Texas 75024-3698

- Business:**
1. To elect eleven directors nominated by the Board of Directors for a one-year term as described in the accompanying proxy materials;
  2. To ratify the appointment of KPMG LLP as independent auditor for the fiscal year ending February 3, 2018;
  3. To approve the adoption of an amendment and extension of the Amended and Restated Rights Agreement in order to continue to protect the tax benefits of our net operating loss carryforwards;
  4. To approve the adoption of the J. C. Penney Corporation, Inc. Amended and Restated Management Incentive Compensation Program;
  5. To hold an advisory vote on executive compensation;
  6. To hold an advisory vote on the frequency of the advisory vote on executive compensation; and
  7. To consider any other business properly brought before the meeting.

**Record Date:** In order to vote, you must have been a stockholder at the close of business on March 20, 2017.

**Voting By Proxy:** It is important that your shares be represented and voted at the meeting. If you received the proxy materials by mail, you can vote your shares by telephone, over the Internet, or by completing, signing, dating and returning your completed proxy card. If you received the proxy materials over the Internet, a proxy card was not sent to you, and you may vote your shares only by telephone or over the Internet. To vote by telephone or Internet, follow the instructions included in the Proxy Statement or on the Internet. You can revoke a proxy at any time prior to its exercise at the meeting by following the instructions in the Proxy Statement.

**Important Notice Regarding the Availability of Proxy Materials for the 2017 Annual Meeting of Stockholders to be held on May 19, 2017.**

**The Notice of Annual Meeting, Proxy Statement and Annual Report on Form 10-K for the fiscal year ended January 28, 2017 are available at [www.proxyvote.com](http://www.proxyvote.com).**

Salil R. Virkar, Secretary

Plano, Texas

March [24], 2017

**YOUR VOTE IS IMPORTANT**

**PLEASE SIGN, DATE, & RETURN YOUR PROXY CARD OR**

**VOTE BY TELEPHONE OR INTERNET**

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**Corporate Governance**

**2017 PROXY STATEMENT**

This Proxy Statement and the accompanying materials are being made available to JCPenney stockholders beginning on or about March [24], 2017. In this Proxy Statement, you will find information on the matters to be presented at the 2017 Annual Meeting of Stockholders (the Annual Meeting) and information to assist you in voting your shares.

**CORPORATE GOVERNANCE**

More than a century ago, James Cash Penney founded JCPenney on the principle of the Golden Rule: treat others the way you would like to be treated. While JCPenney has gone through many changes throughout its history, the foundation built on honesty, trust and integrity has never wavered. Our corporate governance principles continue to reflect the highest ethical standards rooted in our rich heritage as we seek to achieve excellence in our work, products and services for our customers and our stockholders.

Our key corporate governance policies and practices include:

Stockholder Rights	<ul style="list-style-type: none"> <li>Annual election of all directors</li> <li>Majority vote standard in uncontested elections</li> <li>Director resignation policy</li> <li>No unequal voting rights</li> <li>No supermajority vote requirements</li> <li>3%/3 year proxy access bylaw</li> </ul>
Board Structure and Practices	<ul style="list-style-type: none"> <li>All directors are independent other than the CEO</li> <li>Diverse and experienced Board</li> <li>Lead Director with clearly defined responsibilities</li> <li>Independent directors regularly meet in executive sessions</li> <li>Annual Board and Committee self-assessments</li> <li>Annual evaluation of CEO</li> <li>Corporate governance guidelines</li> <li>No significant related party transactions</li> </ul>

***Governing Documents***

The key documents that make up our corporate governance framework are our:

- Corporate Governance Guidelines, including our:
  - Standards for the Determination of Director Independence,
  - Lead Independent Director Policy and
  - Policy on Review and Consideration of Related Person Transactions;
- Restated Certificate of Incorporation, as amended;

Bylaws, as amended;  
Audit Committee Charter;  
Finance and Planning Committee Charter;  
Corporate Governance Committee Charter;  
Human Resources and Compensation Committee Charter;  
Charter of the Committee of the Whole;  
Statement of Business Ethics; and  
Standards and Procedures for Director Nominations.

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### **Corporate Governance**

You can access each of these documents on our website at [www.jcpenney.com](http://www.jcpenney.com) by clicking on Investors, then Corporate Governance. You can also obtain a free copy of any of these documents by sending a written request to JCPenney's Corporate Secretary at P.O. Box 10001, Dallas, Texas 75301.

#### ***Corporate Governance Guidelines***

Our Corporate Governance Guidelines (the Guidelines) set forth JCPenney's primary principles and policies regarding corporate governance, which are the foundation of our commitment to best practices. The Guidelines are reviewed annually by the Corporate Governance Committee and the Board of Directors (the Board). The matters covered by the Guidelines include:

- director responsibilities;
- the size of the Board;
- director independence and minimum qualifications;
- factors to be considered in selecting candidates to serve on the Board;
- the Company's voting standard for the election of directors;
- director resignations upon change of principal employment or personal circumstances;
- directors' outside directorships and outside audit committee service;
- Board organization, including committees of the Board and the role and responsibilities of the lead independent director;
- policies relating to Board meetings;
- executive sessions for directors;
- ethical principles to be followed by directors;
- policies and procedures for reviewing related person transactions and conflicts of interest;
- claw-back policy on recovery of compensation in the event of a financial restatement;
- the Board's access to management and independent advisors;
- stockholders' and other interested parties' communications to non-employee directors;
- director orientation and continuing education;
- prohibition of loans to directors and executive officers;
- stock ownership goals for directors and members of the Company's senior management team;
- prohibition on hedging and pledging of Company stock;
- management succession and CEO evaluation; and
- annual self-assessments of the Board and each Board committee.

#### ***Board Leadership Structure***

Marvin R. Ellison currently serves as both Chairman of the Board and Chief Executive Officer. The non-employee, independent directors of the Board have elected Ronald W. Tysoe, a non-employee, independent director, to serve as Lead Director pursuant to the Company's Lead Independent Director Policy. Mr. Tysoe's term expires at the earlier of the close of the 2019 Annual Meeting of Stockholders or at such time as he ceases to be a director, resigns as Lead Director or is replaced as Lead Director by a majority of the non-employee, independent directors. Specifically, the Company's Lead Independent Director Policy provides that the Lead Director will:

preside over regular executive sessions of the non-employee, independent members of the Board and at meetings of the Board in the absence of, or upon the request of, the Chairman;  
approve the scheduling of Board meetings as well as the agenda and materials for each Board meeting and executive session of the Board's non-employee, independent directors;  
have the authority to call such other meetings of the non-employee, independent directors as he/she deems necessary;

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meet regularly with the Chairman and CEO and serve as a liaison and supplemental channel of communication between the non-employee, independent directors and the Chairman and CEO; communicate with stockholders as appropriate; and approve and coordinate the retention of advisors and consultants who report directly to the non-employee, independent members of the Board, except as otherwise required by applicable law or New York Stock Exchange (NYSE) listing standards.

The Board believes that the existence of a Lead Director with this scope of responsibilities supports strong corporate governance principles and effective oversight of management while providing the benefit of having the Company's CEO also serve as Chairman of the Board. The Board believes that JCPenney's current leadership structure is in the best interests of the Company and its stockholders because it enhances communication between the Board and management and allows Mr. Ellison to more effectively execute the Company's strategic initiatives and business plans while ensuring that the appropriate level of independent oversight is applied to all management decisions.

***Board and Committee Self-Assessments***

Each year, the Board and the Board's Audit, Corporate Governance, Finance and Planning, and Human Resources and Compensation Committees conduct self-assessments to evaluate their effectiveness and to identify opportunities for improvement. This self-assessment may be conducted in the form of written or oral questionnaires administered by Board members, management or third parties. Directors respond to questions designed to elicit information to be used in improving Board and committee effectiveness. Self-assessment topics generally include, among other matters, Board composition and structure, meeting topics and process, information flow, Board oversight of risk management and strategic planning, succession planning and access to management.

Director feedback solicited from the self-assessment process is discussed during Board executive sessions and, where appropriate, addressed with management. The Corporate Governance Committee oversees the development and administration of the self-assessment process, including determining the format. More recently, the Corporate Governance Committee has determined that written questionnaires are a highly effective method of conducting the self-assessments.

***Board of Directors Role in Risk Oversight***

The Board oversees an enterprise-wide approach to risk management, designed to support the achievement of organizational objectives, including strategic objectives, to improve long-term organizational performance and to enhance stockholder value. A fundamental part of risk management is not only understanding the risks a company faces and what steps management is taking to manage those risks but also understanding what level of risk is appropriate for the company. The involvement of the full Board in reviewing the Company's business strategy is an integral aspect of its assessment of management's tolerance for risk and also its determination of what constitutes an appropriate level of risk for the Company. In addition to management's discussion of risk with the full Board throughout the year, the independent directors also discuss risk management during their executive sessions without management present over which the Lead Director presides. The Board's Committees also consider risk appropriate to their respective jurisdictions throughout the year.

***Policies and Procedures with Respect to Related Person Transactions***

The Board recognizes that related person transactions can present a heightened risk of conflicts of interest. Accordingly, as a general matter, our directors and executive officers are to avoid any activity,

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interest or relationship that would create, or might appear to others to create, a conflict with the interests of JCPenney. There were no related person transactions for the Company's fiscal year ended January 28, 2017.

Our written Policy on Review and Consideration of Related Person Transactions (the RPT Policy) is included as Appendix C to the Guidelines. For purposes of Securities and Exchange Commission (SEC) rules as well as the RPT Policy, a related person transaction is any transaction in which the Company was, is or will be a participant and the amount involved exceeds \$120,000 and in which any related person had, has or will have a direct or indirect material interest. The term related person means:

- any person who is, or at any time since the beginning of the Company's last fiscal year was, a director or executive officer of the Company or a nominee to become a director of the Company,
- any person who is known to be the beneficial owner of more than 5% of any class of the Company's voting securities and
- any immediate family member of any of the foregoing persons.

We review all relationships and transactions in which the Company and a related person are participants to determine whether such persons have a direct or indirect material interest. To identify potential related person transactions, we request certain information from our directors and executive officers. We then review the information provided for any related person transactions. The Corporate Governance Committee reviews and determines whether to approve or ratify any related person transaction that is required to be disclosed. Any member of the Corporate Governance Committee who is a related person with respect to a transaction under review may not participate in the deliberations or vote respecting approval or ratification of the transaction.

### **Board Independence**

The Board reviews the independence of each non-employee director annually to confirm that the director continues to meet our standards as well as the requirements of the NYSE. No member of the Board will be considered independent unless the Board determines that he or she has no material relationship with the Company that would affect his or her independence and that he or she otherwise satisfies JCPenney's director independence standards as well as all applicable laws, rules and regulations. Our Standards for the Determination of Director Independence are included as Appendix A to the Guidelines.

The factors the Board considers in determining whether a director is independent include:

- Whether within the preceding three years,
  - the director is or was an employee of JCPenney;
  - a member of the director's immediate family is or was an executive officer of JCPenney;
  - the director or an immediate family member of the director received more than \$120,000 per year in direct compensation from JCPenney (other than compensation for service as a director or pension or other forms of deferred compensation for prior service);

the director or an immediate family member of the director was a partner or employee of JCPenney's external auditor and personally worked on JCPenney's audit within that time;

the director or an immediate family member of the director is or was employed as an executive officer of another company where any of JCPenney's present executive officers serve on the compensation committee of that company's board of directors;

the director or an immediate family member of the director is or was an employee or executive officer of another company that makes payments to, or receives payments from, JCPenney in excess of the greater of \$1 million or 2% of that company's consolidated gross revenues;



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Whether the director or an immediate family member of the director is a current partner of JCPenney's external auditor;

Whether the director is a current employee of JCPenney's external auditor;

Whether an immediate family member of the director is a current employee of JCPenney's external auditor and personally works on JCPenney's audit; and

Whether the director serves as an officer, director or trustee of a charitable organization or as a member of that organization's fund-raising entity or committee that received contributions from JCPenney in excess of the greater of \$1 million or 2% of the charity's gross revenues.

The Board has reviewed each director's independence for fiscal 2017. Applying the standards listed above as well as the requirements of the NYSE, the Board has determined that each of the directors, except for Mr. Ellison, is independent.

***Meeting Attendance***

During fiscal 2016, the Board held seven meetings and committees of the Board held a total of 21 meetings. Each director serving during fiscal 2016 attended at least 75% of the total number of meetings of the Board and committees on which he or she served.

All directors are strongly encouraged to attend the Annual Meeting, but we do not have a formal attendance requirement. In 2016, eleven of the thirteen then-serving members of the Board attended the Annual Meeting.

***Executive Sessions***

The non-employee, independent directors meet in executive session with no Company associates present as a part of each regularly scheduled Board meeting. The Company's Lead Director, Ronald W. Tysoe, presides over these sessions.

***Communications with the Board of Directors***

Any Company stockholder or other interested party who wishes to communicate with the Board or with an individual director may direct such communications by telephone to 1-800-527-0063, by facsimile to 972-431-1133, by email to [jcpdirectors-sm@jcpenny.com](mailto:jcpdirectors-sm@jcpenny.com), or by writing to:

**Corporate Secretary**

**J. C. Penney Company, Inc.**

**P.O. Box 10001**

**Dallas, TX 75301**

The communication must be clearly addressed to the Board of Directors or to a specific director(s). If a response is desired, the individual should also provide contact information such as name, address and telephone number.

All such communications will be reviewed initially by the Company's Corporate Secretary and entered into a log for tracking purposes. The Board has asked the Corporate Secretary to forward to the appropriate director(s) all correspondence, except for items unrelated to the Board's functions, business solicitations, advertisements and materials that are profane. The Corporate Secretary prepares a periodic summary report of all such communications for the Board.

*Communications with the Audit Committee*

Complaints and concerns relating to the Company's accounting, internal accounting controls or auditing matters should be communicated to the Audit Committee of the Board. Any such

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communication may be made on an anonymous basis and may be reported to the Audit Committee through the Company's Senior Vice President, Audit by calling 1-800-527-0063, by website at [www.jcpline.com](http://www.jcpline.com) or by writing to:

**Senior Vice President, Audit**

**J. C. Penney Company, Inc.**

**P.O. Box 250335**

**Plano, TX 75025-0335**

All such concerns will be reviewed under the direction of the Audit Committee and oversight by the Senior Vice President, Audit, the General Counsel, or such other persons as the Audit Committee determines to be appropriate. Confidentiality is maintained to the fullest extent possible, consistent with the need to conduct an adequate review. Prompt and appropriate corrective action will be taken when and as deemed appropriate in the judgment of the Audit Committee. The Senior Vice President, Audit will prepare a periodic summary report of all such communications for the Audit Committee.

***Board Diversity, Director Qualifications and Process for Nominations***

JCPenney is committed to creating an inclusive work environment where everyone is respected and valued. A workforce that understands JCPenney's diverse customer base helps ensure that the Company's products, services and message are relevant in every community where the Company does business.

The Board's philosophy on diversity mirrors the Company's philosophy. In connection with the selection of nominees for director, the Corporate Governance Committee strives to identify and recruit high-caliber individuals whose diverse talents, perspectives, experiences and backgrounds would preserve and enhance the inclusive environment in which the Board currently functions. Additional information on the experiences and backgrounds of the director nominees can be found under Proposal 1 - Election of Directors beginning on page 14.

The Board also aims to maintain an appropriate balance of tenure across our directors. The director nominees identified in this Proxy Statement reflect the importance of diversity to the Board. The charts below reflect the gender composition and board tenure of the director nominees.

Average tenure: 5.3 years



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As provided in the Guidelines, nominees for director, including those directors who are eligible to stand for re-election, are selected based on, among other things, consideration of the following factors:

- character and integrity;
- business and management experience;
- demonstrated competence in dealing with complex problems;
- familiarity with the Company's business;
- diverse talents, backgrounds and perspectives;
- freedom from conflicts of interest;
- regulatory and stock exchange membership requirements for the Board;
- sufficient time to devote to the affairs of the Company; and
- reputation in the business community.

In considering whether to nominate directors who are eligible to stand for re-election, the Corporate Governance Committee also considers the quality of past director service, attendance at Board and committee meetings, compliance with the Guidelines (including satisfying the expectations for individual directors), as well as input from other Board members concerning the director's performance and independence.

Although the Board retains ultimate responsibility for approving candidates for election, the Corporate Governance Committee conducts the initial screening and evaluation process. In doing so, the Corporate Governance Committee considers candidates recommended by directors and the Company's management, as well as any recommendations from Company stockholders. Additionally, the Corporate Governance Committee takes into account the Board's current composition and the capabilities and attributes of serving Board members, as well as additional capabilities and attributes considered necessary or desirable in light of existing Company needs and the goal of preserving and enhancing Board diversity. The Corporate Governance Committee periodically engages one or more search firms to assist in the identification and recruitment of director candidates.

To recommend a candidate for election to the Board, a stockholder must submit the following information to the Corporate Secretary of the Company at least 90 days in advance of the Annual Meeting:

- The stockholder's name and address;
- A representation that the stockholder is a holder of record of JCPenney stock entitled to vote at the Annual Meeting and intends to appear in person or by proxy at the Annual Meeting;
- The name and address of the stockholder's nominee for director;
- A description of any arrangements or understandings between the stockholder and the director nominee or any other person (naming such person(s)) relating to the election of the nominee to the Board;
- The biographical and other information about the nominee that would be required to be included in a proxy statement filed pursuant to the proxy rules of the SEC; and
- The nominee's consent to serve on the Board.

In general, candidates recommended by stockholders will be evaluated under the same process as candidates recommended by existing directors, Company management or third-party search firms. However, the Corporate

Governance Committee will additionally seek and consider information concerning the relationship between a stockholder's recommended nominee and the stockholder to determine whether the nominee can effectively represent the interests of all stockholders. Also, except in unusual circumstances, the Corporate Governance Committee will not evaluate a stockholder-

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recommended candidate unless and until the stockholder advises that the potential candidate has indicated a willingness to serve as a director, to comply with the expectations and requirements for Board service and to provide all the information required to conduct an evaluation.

In addition, pursuant to the Company's proxy access Bylaw adopted by the Board in July 2016, a stockholder, or a group of up to 20 stockholders, owning at least 3% of the Company's outstanding common stock continuously for at least three years may nominate and include in the Company's proxy materials for an annual meeting of stockholders a number of directors up to the greater of two directors and 20% of the Board, provided that the stockholder(s) and nominee(s) satisfy the Bylaw requirements. A notice from an eligible stockholder under the Company's proxy access Bylaw must be received by the Corporate Secretary of the Company no later than 120 days and no earlier than 150 days prior to the first anniversary of the date the Company's definitive proxy statement was first sent to stockholders in connection with the previous year's annual meeting of stockholders, or if the date of the annual meeting of stockholders is more than 30 days before or after the anniversary of the preceding year's annual meeting no earlier than 150 days prior to such annual meeting and no later than the later of 120 days prior to such annual meeting or 10 days following the day on which public disclosure of the date of the annual meeting was first made. The notice must include certain information, representations and agreements required by Article III, Section 17 of the Company's Bylaws, including information about the stockholder or group of stockholders and any proposed director nominee.

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The Board has five principal standing committees. Committee members consist entirely of non-employee directors and the Board has determined that each of the members of these committees is independent, as defined under our standards of independence and under NYSE listing standards. The following table reflects Committee membership as of March 1, 2017:

	Audit Committee	Committee of the Whole	Corporate Governance Committee	Finance and Planning Committee	Human Resources and Compensation Committee
Colleen C. Barrett					
Paul J. Brown					
Amanda Ginsberg					
B. Craig Owens					
Lisa A. Payne					
J. Paul Raines					
Leonard H. Roberts					
Javier G. Teruel					
R. Gerald Turner					
Ronald W. Tysoe					

Lead Independent Director

Chairperson

Member

Audit Committee Financial Expert

- (1) Debora A. Plunkett joined the Board on March 1, 2017. The committees of the Board on which Ms. Plunkett will serve have not yet been determined.

A copy of each Committee's Charter is available at the Company's website at [www.jcpenney.com](http://www.jcpenney.com). Also available on the Company's website are procedures for the confidential and anonymous reporting of matters relating to questionable accounting, internal accounting controls or auditing matters. For a discussion of the processes and procedures for determining executive and director compensation and the roles of management and compensation consultants in determining or recommending the amount or form of compensation, see Compensation Discussion and Analysis beginning on page 23 and Director Compensation for Fiscal 2016 beginning on page 62. The mailing address for all of these committees is c/o Corporate Secretary, J. C. Penney Company, Inc., P.O. Box 10001, Dallas, Texas 75301.



***Audit Committee***

**Meetings in Fiscal 2016: 7**

**Members\*:** B. Craig Owens (Chair), Lisa A. Payne, Leonard H. Roberts, Javier G. Teruel (*All Independent*)

**Primary Responsibilities**

Selection and retention of the independent auditor for the annual audit of the Company's consolidated financial statements

Approval of audit fees and non-audit services and fees paid to the independent auditor

Review the independent auditor's strategy and plan, scope, audit results, performance and independence

Review internal audit reports on the adequacy of internal controls

Review the Company's ethics program

Review the status of significant legal matters

Review the scope of the internal auditor's plans and budget and results of its audits

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### **Board Committees**

Review the effectiveness of the Company's program for correcting audit findings  
Participate in the certification process relating to the filing of certain periodic reports pursuant to the Securities Exchange Act of 1934, as amended (Exchange Act)

- \* The Board has determined that each member of this Committee is financially literate and qualifies as an audit committee financial expert, as those terms are defined by the SEC and the NYSE.

#### ***Corporate Governance Committee***

**Meetings in Fiscal 2016: 3**

**Members:** Colleen C. Barrett (Chair), Amanda Ginsberg, J. Paul Raines, R. Gerald Turner, Ronald W. Tysoe (*All Independent*)

#### **Primary Responsibilities**

Perform the functions of a nominating committee  
Consider matters of corporate governance  
Review developments in the governance area as they affect relations between the Company and its stockholders  
Develop and recommend to the Board corporate governance principles and practices for the Company  
Make recommendations to the Board with respect to the size, composition, organization and responsibilities of the Board and its directors  
Make recommendations to the Board with respect to the qualifications of directors, candidates for election as directors, the compensation of directors, and annual independence determinations  
Oversee the annual performance self-assessment process by the Board and each of the Audit, Corporate Governance, Finance and Planning, and Human Resources and Compensation Committees

#### ***Finance and Planning Committee***

**Meetings in Fiscal 2016: 5**

**Members:** Javier G. Teruel (Chair), Paul J. Brown, B. Craig Owens, Lisa A. Payne, Leonard H. Roberts (*All Independent*)

#### **Primary Responsibilities**

Review the Company's financial policies  
Review the Company's financial strategies  
Review the Company's capital structure

#### ***Human Resources and Compensation Committee***

**Meetings in Fiscal 2016: 5**

**Members:** Ronald W. Tysoe (Chair), Colleen C. Barrett, Paul J. Brown, Amanda Ginsberg, J. Paul Raines, R. Gerald Turner (*All Independent*)

**Primary Responsibilities**

Review and administer the Company's annual and long-term incentive compensation plans

Review the administration and operation of certain of the Company's retirement and welfare plans

Take action or make recommendations with respect to the compensation of executive officers, including making a non-binding recommendation to the Committee of the Whole regarding the compensation level of the CEO

Review succession plans for key Company executives, including the CEO

Review the annual financial and investment performance results of the Company's retirement and welfare plans, including the annual actuarial valuation reports applicable to such plans

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**Board Committees**

***Committee of the Whole***

**Meetings in Fiscal 2016: 1**

**Members:** Ronald W. Tysoe (Chair), Colleen C. Barrett, Paul J. Brown, Amanda Ginsberg, B. Craig Owens, Lisa A. Payne, J. Paul Raines, Leonard H. Roberts, Javier G. Teruel, R. Gerald Turner (*All Independent*)

**Primary Responsibilities**

Assist the Board in discharging its responsibilities relating to the setting of performance goals and objectives for the CEO

Assist the Board in discharging its responsibilities relating to the evaluation of performance of the CEO in light of set performance goals and objectives

Assist the Board in discharging its responsibilities relating to the setting of compensation for the CEO

**COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION**

The Human Resources and Compensation Committee and Committee of the Whole are each composed entirely of persons who are neither Company associates nor former or current officers of the Company. There is not, nor was there during fiscal 2016, any compensation committee interlock or insider participation on the Human Resources and Compensation Committee or the Committee of the Whole.

**SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Exchange Act requires JCPenney's directors and officers and persons who beneficially own more than ten percent of a registered class of the Company's equity securities to file initial reports of ownership and reports of changes in ownership with the SEC. The Company assists its directors and officers by monitoring transactions and completing and filing Section 16 reports on their behalf. We believe that all filing requirements were met during fiscal 2016.

**Table of Contents****Beneficial Ownership of Common Stock****BENEFICIAL OWNERSHIP OF COMMON STOCK**

The following table shows, as of March 6, 2017, the beneficial ownership of shares of JCPenney common stock by (a) each stockholder known to the Company to beneficially own more than 5% of JCPenney common stock, (b) each present director, all of whom, other than Ms. Barrett, are nominees for re-election at the Annual Meeting, (c) the five most highly compensated present executive officers serving during the last fiscal year and one former executive officer who is also deemed to be a named executive officer, and (d) all present directors and executive officers of the Company as a group. Beneficial ownership means that the individual has or shares voting power or investment power with respect to the shares of common stock or the individual has the right to acquire the shares of common stock within 60 days of March 6, 2017.

Name	Number of shares beneficially owned	Number of shares included in previous column which the individual or group has/have the right to acquire within 60 days of March 6, 2017	Percent of outstanding common stock <sup>(1)</sup>
BlackRock, Inc.	23,377,617 <sup>(2)</sup>		7.58%
The Vanguard Group	22,587,574 <sup>(3)</sup>		7.32%
State Street Corporation	21,887,654 <sup>(4)</sup>		7.10%
The TCW Group, Inc.	16,622,151 <sup>(5)</sup>		5.39%
<b>Directors<sup>(6)</sup></b>			
Colleen C. Barrett	95,313	94,609	*
Paul J. Brown	10,865	10,865	*
Marvin R. Ellison	917,296	436,268	*
Amanda Ginsberg	34,308	34,308	*
B. Craig Owens	49,087	49,087	*
Lisa A. Payne	23,194	23,194	*
Debora A. Plunkett	6,345	6,345	*
J. Paul Raines	33,242	23,194	*
Leonard H. Roberts	118,324	100,286	*
Javier G. Teruel	348,135	86,024	*
R. Gerald Turner <sup>(7)</sup>	113,586	105,347	*
Ronald W. Tysoe	87,432	62,432	*
<b>Named Executive Officers<sup>(6)(8)</sup></b>			
Edward J. Record	294,784	197,652	*
Mary Beth West	119,464	66,062	*
John J. Tighe	128,554	127,825	*
Joseph M. McFarland	11,666	11,666	*
Myron E. Ullman, III <sup>(9)</sup>	1,914,161	1,639,317	*
All present directors and executive officers as a group <sup>(10)</sup>	3,177,383	1,674,716	1.03%

\* Less than 1%.

- (1) Calculated based on Rule 13d-3(d)(i) using the number of outstanding shares of common stock as of March 6, 2017.
- (2) Based on information set forth in an Amendment No. 4 to Schedule 13G filed with the SEC on January 25, 2017 by BlackRock, Inc. reporting sole power to vote or direct the vote of 22,123,247 shares of JCPenney common stock and sole power to dispose or direct the disposition of 23,377,617 shares of JCPenney common stock. The address of BlackRock, Inc. is 55 East 52nd Street, New York, New York 10055.

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**Beneficial Ownership of Common Stock**

- (3) Based on information set forth in an Amendment No. 3 to Schedule 13G filed with the SEC on February 10, 2017 by The Vanguard Group reporting sole power to vote or direct the vote of 181,669 shares of JCPenney common stock, shared power to vote or direct the vote of 38,600 shares of JCPenney common stock, sole power to dispose or direct the disposition of 22,382,245 shares of JCPenney common stock and shared power to dispose or direct the disposition of 205,329 shares of JCPenney common stock. The address of The Vanguard Group is 100 Vanguard Boulevard, Malvern, Pennsylvania 19355.
- (4) Based on information set forth in a Schedule 13G jointly filed with the SEC on February 14, 2017 by State Street Corporation and State Street Bank and Trust Company acting in various capacities. The Schedule 13G reported that State Street Corporation has shared power to vote or direct the vote of 21,887,654 shares of JCPenney common stock and shared power to dispose or direct the disposition of 8,520,877 shares of JCPenney common stock. The Schedule 13G also reported that State Street Bank and Trust Company, acting in various capacities, has shared power to vote or direct the vote of 19,674,170 shares of JCPenney common stock and shared power to dispose or direct the disposition of 6,307,393 shares of JCPenney common stock, which includes 13,366,777 shares of JCPenney common stock held in trust under the J. C. Penney Corporation, Inc. Savings, Profit-Sharing and Stock Ownership Plan. The address of State Street Corporation and State Street Bank and Trust Company is State Street Financial Center, One Lincoln Street, Boston, Massachusetts 02111.
- (5) Based on information set forth in a Schedule 13G filed with the SEC on February 14, 2017 by The TCW Group, Inc., on behalf of the TCW Business Unit, reporting shared power to vote or direct the vote of 11,258,498 shares of JCPenney common stock and shared power to dispose or direct the disposition of 16,622,151 shares of JCPenney common stock. The address of The TCW Group, Inc. is 865 South Figueroa Street, Los Angeles, California 90017.
- (6) Except as set forth in the footnotes below, each person has sole investment and voting power with respect to the common stock beneficially owned by such person. Includes only those stock options that are exercisable or become exercisable within 60 days of March 6, 2017. Does not include restricted stock units that will not vest within 60 days of March 6, 2017.
- (7) Includes 1,742 shares of JCPenney common stock that Dr. Turner holds under the Company's Dividend Reinvestment Plan with respect to which he shares voting and investment power.
- (8) In addition to Mr. Ellison, who also serves as a director.
- (9) Stock ownership for Mr. Ullman reflects direct holdings as of August 1, 2016, the last day on which he served as an executive officer of the Company, along with stock options exercisable and restricted stock units that would vest within 60 days of such date.
- (10) Excludes shares of Mr. Ullman, who no longer serves as an executive officer of the Company.

**Table of Contents****Proposal 1 - Election of Directors****PROPOSAL 1 ELECTION OF DIRECTORS**

The terms of each of the Company's current directors will expire at the 2017 Annual Meeting. Each of the current directors, other than Colleen C. Barrett who will be retiring from the Board effective May 19, 2017, has been nominated by the Board to serve as a continuing director for a new one-year term expiring at the 2018 Annual Meeting of Stockholders. Each nominee elected as a director will continue in office until his or her successor has been elected and qualified, or until his or her earlier death, resignation or retirement. We are not aware of any reason why any of these nominees would not accept the nomination. However, if any of the nominees does not accept the nomination, or is otherwise unavailable for election, the persons designated as proxies will vote for any substitute nominee recommended by the Board. Proxies cannot be voted for a greater number of persons than the number of nominees named.

In determining whether to nominate each of the current directors, other than Ms. Barrett, for another term, the Board considered the factors discussed above in Board Diversity, Director Qualifications and Process for Nominations and concluded that each of the current directors standing for re-election possesses unique talents, backgrounds, perspectives, attributes and skills that will enable each of them to continue to provide valuable insights to Company management and play an important role in helping the Company achieve its long-term goals and objectives. As described below in the experience and qualifications of each of our director nominees, each nominee has achieved an extremely high level of success in his or her career. The chart below depicts the full range of skills, qualifications and expertise represented by the director nominees.

**Range of Skills, Qualifications and Expertise Represented by Our Nominees**

Retail Industry Experience	Audit/Financial Reporting
Customer Relations	Financial Management
Human Resources	Accounting
Operations Management	E-Commerce Experience
Executive Experience	Brand Management
Board Experience	Enterprise Risk Management
Corporate Governance	Strategic Planning
Public Company Board Service	Store Operations
Sales Experience	Merchandising
Logistics Management	Marketing
Consumer Industry Experience	Sourcing
Cybersecurity	

The Company does not have a mandatory retirement age for directors. There is no family relationship between any director or executive officer of the Company.



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**Proposal 1 - Election of Directors**

*The Board recommends a vote FOR each of the nominees for director.*

***Nominees for Director***

**Paul J. Brown, 50 - Director of the Company since September 2016.**

Chief Executive Officer, Arby's Restaurant Group, Inc.

***Committees:*** Committee of the Whole, Finance and Planning, Human Resources and Compensation

***Business Experience:*** Chief Executive Officer of Arby's Restaurant Group, Inc. (food industry) since 2013; President, Brands and Commercial Services of Hilton Worldwide (hospitality) from 2008 to 2013; President of Expedia North America and Expedia Inc. Partner Services Group (Internet-based travel reservations) from 2005 to 2008; Partner of McKinsey & Co. (consulting) from 2001 to 2005; Director of Lindblad Expedition Holdings and H&R Block, Inc.

***Qualifications:*** Mr. Brown has extensive executive experience in consumer industries, including food, hospitality and travel, having served as CEO or as an executive of several major U.S. companies. He brings to the JCPenney Board significant operations, financial management, e-commerce, brand management and enterprise risk management experience. He also currently serves on the boards of other publicly-traded companies.

**Marvin R. Ellison, 52 - Director of the Company since 2014.**

Chairman of the Board and Chief Executive Officer, J. C. Penney Company, Inc.

***Business Experience:*** Chairman of the Board since August 2016, CEO since 2015 and President from 2014 to 2015 of JCPenney; Executive Vice President - U.S. Stores of The Home Depot, Inc. (home improvement retailer) from 2008 to 2014, with which he served in positions of increasing importance since 2002, including as 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; Target Corporation (retailer) from 1987 to 2002, with which he served in a variety of operational roles; Director of H&R Block, Inc. from 2011 to 2014; Director of FedEx Corporation; Director of the Retail Industry Leaders Association (RILA);

Director of the National Retail Federation.

***Qualifications:*** Mr. Ellison has extensive experience in the retail industry, including executive experience with a major U.S. retailer. He brings considerable knowledge of operations and sales including experience managing a large network of stores and associates as well as insights and perspectives on managing global logistics networks. He also currently serves on the board of another publicly-traded company.

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**Proposal 1 - Election of Directors**

**Amanda Ginsberg, 47 - Director of the Company since 2015.**

Chief Executive Officer, Match Group North America

**Committees:** Corporate Governance, Committee of the Whole, Human Resources and Compensation

**Business Experience:** Chief Executive Officer since 2015 of Match Group North America (Internet-based dating service); Chief Executive Officer from 2014 to 2015 of The Princeton Review (test preparation and college admission services); Chief Executive Officer from 2013 to 2015 of Tutor.com (Internet-based on-demand instructional solutions); Chief Executive Officer from 2012 to 2013 and Senior Vice President and General Manager from 2008 to 2012 of Match.com (Internet-based dating service); Vice President and General Manager from 2006 to 2008 of Chemistry.com (Internet-based dating service); Director of Care.com, Inc. from 2012 to 2014.

**Qualifications:** Ms. Ginsberg has extensive operational and senior management experience with consumer Internet companies, including service as Chief Executive Officer of a leading test preparation company and a leading on-demand learning solutions company. She brings extensive knowledge of online consumer engagement to the JCPenney Board as well as considerable executive experience managing operations and strategic planning.

**B. Craig Owens, 62 - Director of the Company since 2014.**

Retired Chief Financial Officer and Chief Administrative Officer, Campbell Soup Company

**Committees:** Audit (Chair), Committee of the Whole, Finance and Planning

**Business Experience:** Retired Senior Vice President, Chief Financial Officer and Chief Administrative Officer (2008 to 2014) of Campbell Soup Company; Executive Vice President and Chief Financial Officer from 2001 to 2008 of Delhaize Group (grocery retailer); served in various positions of increasing importance with The Coca-Cola Company (beverages) and its bottlers from 1981 to 2001; Director of Pall Corporation from 2011 to 2015; Director of Dean Foods Company; Trustee of Washington and Lee University.

***Qualifications:*** Mr. Owens has extensive experience in the consumer food and beverage industries, including service as Chief Financial Officer of a leading publicly-traded consumer food company. He also has considerable knowledge of the retail industry, having served as Chief Financial Officer of a leading international grocery retailer. He brings significant financial expertise to the JCPenney Board including all aspects of financial reporting, accounting, corporate finance and capital markets, as well as considerable experience managing supply chain and information technology organizations. As a result of his executive experience, he also has a deep understanding of operations and strategic planning. He also currently serves on the board of another publicly-traded company.

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**Proposal 1 - Election of Directors**

**Lisa A. Payne, 58 - Director of the Company since February 2016.**

Retired Vice Chairman and Chief Financial Officer, Taubman Centers, Inc.

**Committees:** Audit, Committee of the Whole, Finance and Planning

**Business Experience:** Chairman of the Board of Soave Enterprises, LLC (private equity) and President of Soave Real Estate Group from 2016 to 2017; Retired Vice Chairman and Chief Financial Officer (2005 to 2016) of Taubman Centers, Inc. (real estate investment trust), where she held various positions since 1997, including Director from 1997 to 2016 and Executive Vice President and Chief Financial and Administrative Officer from 1997 to 2005; Vice President from 1996 to 1997 of Goldman, Sachs & Co. (finance), where she held various positions between 1986 and 1996; Director of Masco Corporation and Rockwell Automation, Inc.; Trustee of Munder Series Trust and Munder Series Trust, II from 2005 to 2014.

**Qualifications:** Ms. Payne has extensive accounting and financial experience in the regional mall and real estate industries, including service as the Chief Financial Officer of a leading retail management and real estate development company. She also brings extensive corporate finance experience from her past experience as an investment banker with a leading investment banking firm. As a result of her executive experience, she also has a deep understanding of operations and strategic planning. Ms. Payne's Board and Board committee experience also provides her with significant insight as to governance and compliance-related matters of public companies.

**Debora A. Plunkett, 57 - Director of the Company since February 2017.**

Principal, Plunkett Associates LLC (cybersecurity consulting)

**Business Experience:** Principal, Plunkett Associates LLC (cybersecurity consulting) since 2016; Adjunct Professor, University of Maryland College Graduate School since 2014; Senior Advisor to the Director of the United States National Security Agency (NSA) from 2014 to 2016, with which she served in positions of increasing importance since 1984, including Director, Information Assurance Directorate, from 2010 to 2014, Deputy Director of Information Assurance from 2008 to 2010, and in various senior executive, supervisory and analytic roles from 1984 to 2008; Director, Office of Transnational Threats, United States National Security Council at the United States White House from 2000 to 2001.

***Qualifications:*** Ms. Plunkett has more than 30 years of cybersecurity experience, having served as a Director on the United States National Security Council of the White House and in multiple cybersecurity roles with the United States National Security Agency. In addition, her past experience provides her with perspective into the challenges of managing large, complex, multi-faceted organizations. Ms. Plunkett also brings to the Board a valuable and different perspective due to her extensive background in public policy.

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**Proposal 1 - Election of Directors**

**J. Paul Raines, 52 - Director of the Company since February 2016.**

Chief Executive Officer and Director, GameStop Corporation

**Committees:** Corporate Governance, Committee of the Whole, Human Resources and Compensation

**Business Experience:** Chief Executive Officer and Director, GameStop Corporation (video game retailer) since 2010 and Chief Operating Officer from 2008 to 2010; various management positions with The Home Depot, Inc. (home improvement retailer) from 2000 to 2008, including Executive Vice President of U.S. Stores and President of the Southern Division; four years in global sourcing for L.L. Bean, Inc. (retailer) prior to The Home Depot; 10 years with Kurt Salmon Associates (management consulting) in consumer products group prior to L.L. Bean; Director of Advance Auto Parts Inc. from 2010 to May 2016.

**Qualifications:** Mr. Raines has expertise in the areas of retail strategy, store operations, customer service, merchandising, marketing, and global sourcing, including serving as Chief Executive Officer of a Fortune 500 company. With this background, he brings insight and perspectives on retail operations, marketing and sourcing to the JCPenney Board. He also currently serves on the board of another publicly-traded company.

**Leonard H. Roberts, 68 - Director of the Company since 2002.**

Retired Chairman and Chief Executive Officer, RadioShack Corporation

**Committees:** Audit, Committee of the Whole, Finance and Planning

**Business Experience:** Retired Chairman and Chief Executive Officer of RadioShack Corporation (consumer electronics), with which he served as Executive Chairman of the Board from 2005 to 2006, Chairman of the Board and Chief Executive Officer from 1999 to 2005, President from 1993 to 2000, and a Director from 1997 to 2006; Chairman and Chief Executive Officer of Shoney's, Inc. (restaurants) from 1990 to 1993; President and Chief Executive Officer of Arby's, Inc. (restaurants) from 1985 to 1990; Director of Rent-A-Center, Inc.; Director of Tarrant County Safe City Commission; Director and Former Chairman of the Board of Directors of Texas Health Resources.



***Qualifications:*** Mr. Roberts has extensive executive and board experience in the retail industry, including service as the Chairman and as the CEO of a publicly-traded consumer electronics retailer and CEO positions with two restaurant operators. With this background, he has insights and perspectives on delivering merchandise and services to consumers, which he brings to the JCPenney Board. As a result of his extensive executive experience, he also brings financial expertise to the Board. He also currently serves on the board of another publicly-traded company.

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**Proposal 1 - Election of Directors**

**Javier G. Teruel, 66 - Director of the Company since 2008.**

Partner, Spectron Desarrollo, SC and Chairman, Alta Growth Capital

**Committees:** Audit, Committee of the Whole, Finance and Planning (Chair)

**Business Experience:** Partner of Spectron Desarrollo, SC (investment management and consulting) since 2007; Chairman of Alta Growth Capital (private equity) since 2012; Retired Vice Chairman (2004 to 2007) of Colgate-Palmolive Company (consumer products), with which he served in positions of increasing importance since 1971, including as Executive Vice President responsible for Asia, Central Europe, Africa and Hill's Pet Nutrition, Vice President of Body Care in Global Business Development in New York, President and General Manager of Colgate-Mexico, President of Colgate-Europe, and Chief Growth Officer responsible for the company's growth functions; Director of Starbucks Corporation; Director of Nielsen N.V.

**Qualifications:** Mr. Teruel has extensive executive experience in the consumer products industry. He brings to the JCPenney Board considerable product development, merchandising and marketing skills and perspectives. His broad international experience also provides unique insights relevant to the Company's product sourcing initiatives. Mr. Teruel brings the benefits of service on the boards of other publicly-traded companies to the JCPenney Board, including financial expertise resulting from his service as the former chair of the audit committee of one of the boards.

**R. Gerald Turner, 71 - Director of the Company since 1995.**

President, Southern Methodist University

**Committees:** Corporate Governance, Committee of the Whole, Human Resources and Compensation

**Business Experience:** President of Southern Methodist University since 1995; Chancellor of the University of Mississippi from 1984 to 1995; Co-Chairman, Knight Commission on Intercollegiate Athletics from 2005 to 2015; Director of Kronos Worldwide, Inc. and American Beacon Funds; Director of Methodist Hospital Foundation and the Salvation Army of Dallas.

***Qualifications:*** Dr. Turner's extensive career in academia provides the Company with valuable insights and perspectives on communicating with younger customers and associates. He also brings experience and skills in human resources and management. Dr. Turner's current experience as president of a leading university provides him with perspective into the challenges of managing complex, multi-faceted organizations. In addition, his service on the boards of other publicly-traded companies, including committee service, has given him insights and perspectives on governance and human resources and compensation which benefit the JCPenney Board.

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**Proposal 1 - Election of Directors**

**Ronald W. Tysoe, 63 - Director of the Company since 2013.**

Former Vice Chairman of Finance and Real Estate, Federated Department Stores, Inc.

***Committees:*** Corporate Governance, Committee of the Whole, Human Resources and Compensation (Chair)

***Business Experience:*** Vice Chairman of Finance and Real Estate of Federated Department Stores, Inc. (now Macy's, Inc.) from 1990 to 2006 and Chief Financial Officer from 1990 to 1997; Senior Advisor of Perella Weinberg Partners LP (global, independent advisory and asset management firm) from 2006 to 2007; Director of Pzena Investment Management Inc. from 2008 to 2013; Director of Canadian Imperial Bank of Commerce; Director of Scripps Networks Interactive, Inc.; Director of Cintas Corporation; Director of Taubman Centers, Inc.

***Qualifications:*** Mr. Tysoe has extensive experience in the retail industry, including executive and board experience with a major U.S. retailer. He provides valuable insights and perspectives to the Board as a result of his considerable financial and real estate experience. He also brings the benefits of service on the boards of other publicly-traded companies, including expertise in corporate strategy, compensation and corporate governance.

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**Letter from Human Resources and Compensation Committee Chairman**

Dear Fellow Stockholders,

On behalf of the Human Resources and Compensation Committee of your Board, let me first thank you for your continued support. Our Committee is comprised solely of independent directors, and we take seriously our responsibilities to those who choose to invest in the Company. Our goal is to design pay programs that only provide significant rewards to executives when JCPenney successfully executes on its strategic priorities.

***Our Environment and Leadership Transitions***

As you are aware, the retail environment in general and especially for department stores has undergone significant upheaval and transformation over the past several years, as shopping alternatives have increased and the Company's primary customer has continued to experience financial pressures. As we review JCPenney's executive compensation program and make decisions regarding executive pay, we are mindful of the dramatic changes occurring within the retail industry.

To better position JCPenney for the future, we hired Marvin Ellison in November 2014 with the intent of making him the Company's next Chief Executive Officer. Marvin's transition to his current role as Chairman of the Board and Chief Executive Officer was completed in August 2016 when Mike Ullman retired as Executive Chairman. This transition process took almost two years and was deliberately designed to take place over that timeframe to enable Marvin to benefit from Mike's extensive knowledge of JCPenney and the apparel retail industry.

During the CEO transition period, and recognizing that the Company remains in a period of transformation, other changes were identified within the senior leadership team that were necessary to ensure the Company has the right team in place that can successfully execute on the Company's business priorities in this evolving retail landscape. Those changes have now been made, and we believe the current team is more than capable of rising to the challenges JCPenney and others in the industry are facing.

***Programs Designed to Compete for Talent***

To keep the Company's leadership team intact, we need to provide pay opportunities commensurate with those offered by the companies in the highly-competitive and rapidly changing retail industry with whom JCPenney competes for talent. The following CD&A provides detailed descriptions of the Company's executive compensation program, which we believe is strongly aligned with the long-term interests of investors and also focused on near-term business performance.

To ensure you are aware of the key components of JCPenney's program, and of some enhancements we have made to address stockholder concerns and focus on the Company's position as a leading retailer, we note the following:

*Peer group.* We benchmark pay for senior executives against a carefully-constructed peer group that, unlike prior years, is now limited to retailers. To select those peers we consider viable competitors for the leaders needed, the Committee places a high priority on industry and the similarity of business models and products sold, rather than strict size constraints that do not fully consider the magnitude and scope of JCPenney's

operations. We generally use revenues, market cap and enterprise values that range between 0.33x-3.0x of the Company's to define the peers, with the majority of the companies in the peer group falling within that range.

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**Letter from Human Resources and Compensation Committee Chairman**

*Pay benchmarking.* To ensure objectivity as compensation levels are set, the Committee's independent compensation consultant takes the lead in conducting any analyses used to establish competitive market pay levels for members of the senior leadership team.

*Annual bonus tied only to financial goals.* Awards under the annual cash bonus plan for senior executives are based solely on financial performance. Bonus payments for 2016 could only be earned if sales, operating profit and inventory management results exceeded explicit, seasonally-based goals. The Spring performance period generated a payout of only 60.5% of target while the Fall period, which is weighted more heavily to reflect the seasonality of JCPenney's business, produced a zero payout. Consequently, the overall payout for the full year was only 24.2% of target, which is reflective of the Company's performance against plan.

*Long-term performance awards tied to three year financial goals.* The vast majority of the Company's long-term incentive program rewards only for longer-term performance. In 2016, we revised the performance-based restricted stock unit program so that it pays out only for performance at the end of the period, rather than for annual performance during the period. Specifically, the 2016 grants only pay out if JCPenney achieves EBITDA results for fiscal 2018 (the final year of the program) that reflect a significant increase over the level achieved in fiscal 2015.

*Restrictive covenants.* During the year, we began requiring executive officers to comply with certain restrictive covenants, including non-competition and non-solicitation covenants, as a condition to receiving an annual long-term equity incentive award. We also extended the restrictive covenants in the Company's executive termination pay agreement to apply to voluntary terminations of employment. This further supports our goal of retaining key executives while minimizing the risk of competitive harm that could arise to JCPenney in the event of employment termination.

We believe we have set challenging targets for the incentive programs and that the payouts under these programs vary as intended based on the business results achieved. Each year, we conduct a rigorous review of market practices to ensure the Company's programs remain current and relevant. We also critique our incentive designs each year with the goal of identifying any changes that would better support our business and compensation objectives, both immediate and longer-term.

***In Conclusion***

We hope these comments provide additional insight into the Committee's decisions about executive pay. We are excited about the strategic initiatives underway at the Company and are optimistic about its prospects. At the same time, we are committed to doing all that we can to ensure we have the compensation programs in place to drive long-term stockholder value.

Ronald W. Tysoe

Chair, Human Resources and Compensation

Committee, and Lead Independent Director

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***Executive Summary***

Our compensation philosophy is integrated with JCPenney's core values and business strategy. Our core values were first stated in The Penney Idea, which was adopted in 1913 and which includes the principle that we will reward men and women in our organization through participation in what the business produces. This principle endures today in our executive compensation policies that link pay for performance and align the pay of our named executive officers with the interests of our stockholders.

***Leadership.*** Our named executive officers for the fiscal year ended January 28, 2017 are listed below.

NameTitle

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Marvin R. Ellison	Chairman of the Board and Chief Executive Officer
Edward J. Record	Executive Vice President and Chief Financial Officer
Mary Beth West*	Executive Vice President, Chief Customer and Marketing Officer
John J. Tighe	Executive Vice President, Chief Merchant
Joseph M. McFarland	Executive Vice President, Stores
Myron E. Ullman, III	Retired Executive Chairman

\* Ms. West has notified the Company that she is voluntarily terminating her employment, effective April 1, 2017.

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**Compensation Discussion and Analysis**

As part of our previously announced leadership transition, Mr. Ullman served as Executive Chairman until he retired from the Company on August 1, 2016.

***Business Performance.*** In fiscal 2016, the Company delivered its first positive net income since 2010 in the face of a very challenging retail environment. That result was the reflection of strong performance in our growth initiatives and a continued focus on strengthening our digital business. Specifically, for the 2016 fiscal year, the Company delivered the following results:

Comparable store sales flat compared to the 2015 fiscal year;

Total sales of \$12.55 billion, a 0.6% decrease compared to fiscal 2015;

Gross margin of \$4.48 billion;

A reduction in selling, general and administrative expenses by \$237 million to \$3.54 billion, or 28.2% of sales, representing a 170 basis point improvement over the prior year;

Net income of \$1 million, which was a \$514 million improvement compared to a \$513 million net loss in the prior year; and

An increase in EBITDA by \$477 million to \$1.0 billion, a 91% improvement versus the prior year year.

Please see pages [25 to 28] of the Company's Annual Report on Form 10-K for a discussion of non-GAAP financial measures.

***Components of 2016 Compensation and Alignment with Performance.*** The following table outlines the key components of our named executive officers' 2016 compensation, and highlights the impact of our performance during this fiscal year on each element.

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<b>Element</b>	<b>Key Characteristics</b>	<b>Link to Performance</b>
<b>Base Salary</b>	<p>Fixed component payable in cash</p> <p>Set based on peer group and market survey data</p> <p>Reflects individual experience, performance and tenure</p>	<p>Modest merit increases for CEO and select NEOs</p> <p>Market adjustment for NEO whose role expanded to assume additional responsibilities</p>
<b>Annual Bonus</b>	<p>Performance-based cash program</p> <p>Split into Spring and Fall plans weighted 40% and 60%, respectively, to reflect seasonal business cycle</p> <p>For both programs, awards are tied to the following financial metrics:</p> <p>Sales: 50%</p> <p>Operating Profit: 30%</p> <p>Gross Profit Return on Inventory (GPROI): 20%</p>	<p>Overall payouts earned by executive officers are only 24.2% of target annual awards</p> <p>Reflects payouts at 60.5% of weighted target for Spring plan</p> <p>Reflects no payout for Fall plan because performance was below threshold for all three goals</p>
<b>Long-term Incentives</b> <i>Performance-based</i>	<p>Performance-based equity grants that focus on long-term value creation and growth strategy</p>	<p>Payout will be determined based on 2018 results</p>

*Restricted Stock*

*Units (PBRUs)*

Cover 3-year performance periods, and can be earned for achieving pre-set financial goals

Based on 2016 EBITDA, the 2016 portion of the 2015 grant was banked at 131.4% of target

**2016 grants** tied to EBITDA goal for fiscal 2018

**2015 grants** tied to EBITDA goals for each of 2015, 2016 and 2017

Shares earned are distributed at end of performance period

*Stock Options*

Equity awards that only deliver value if stock price increases after the date of grant

Varies with stock price. At year end, 2016 grants were underwater

Provides alignment with stockholder interests

*Time-based*

Equity awards that deliver value equal to share price

Year-end value was significantly lower than grant date value, commensurate with stock price decline during the year

*Restricted Stock*

*Units (TBRUs)*

3-year cliff vesting promotes retention

Aligns economic interests of executives with stockholders

**Table of Contents****Compensation Discussion and Analysis**

*Retired Executive Chairman.* During fiscal 2016, Mr. Ullman served as our Executive Chairman until he retired as of August 1, 2016. This timeframe was established as a key element of our plan to provide for the seamless transition of leadership from Mr. Ullman to Mr. Ellison.

For the six months he served as Executive Chair during fiscal 2016, Mr. Ullman's target total direct compensation was set at \$1,800,000. Although his base salary annual rate of \$1,500,000 remained unchanged, his target annual bonus opportunity was reduced to 175% from the prior 200% level and he did not receive an annual equity award in 2016. Specifically, for the six months he was employed by us during fiscal 2016, Mr. Ullman's target direct compensation consisted of a base salary of \$750,000 and a target opportunity for the Spring Bonus plan of \$1,050,000 (based on the 40% weighting assigned to the Spring performance period).

As noted, Mr. Ullman participated in the Spring Bonus plan. The Company's performance for this plan, the relative weightings of each of the performance metrics, and the performance results are detailed in the Spring Performance Period section of the discussion about our Annual Cash Bonus Awards. Consistent with other participants in the Spring Bonus plan, Mr. Ullman earned a cash bonus equal to 60.5% of his target opportunity for the period, resulting in a payout to him of \$635,355.

Also as noted above, in lieu of granting an annual equity award to Mr. Ullman in 2016, the independent directors of the Board determined that he would be eligible to receive a \$500,000 individual cash performance award under the Management Incentive Compensation Program (MICP) based on successful completion of the leadership transition to Mr. Ellison. In determining the form and amount of this performance award, the independent directors considered Mr. Ullman's remaining tenure of six months, his compensation history, the fact that on an annualized basis his target total direct compensation was significantly lower than the prior year, and competitive market data.

Upon Mr. Ullman's retirement, the independent directors of the Board determined that he had earned the individual cash performance award due to his contributions to the successful leadership transition. In its decision, the independent directors focused on Mr. Ullman's assistance in refining our merchandising and private brand strategy and initiatives, his counsel regarding key changes to our leadership team at the Executive Vice President level, and his efforts with respect to board succession matters.

Mr. Ullman also participated in our defined contribution plans and in the other benefits and perquisites programs for which he historically had been eligible. Details are disclosed in the footnotes to the Summary Compensation Table for the All Other Compensation column. During 2016, Mr. Ullman received his final annual installment payment from our excess defined benefit retirement plan, which was required as a result of his retirement from the Company in 2012. This payment constituted more than half of his compensation included under the All Other Compensation column.

*Target Pay Mix.* The charts below show the Target Compensation Mix for fiscal 2016 for Mr. Ellison and for our other named executive officers (other than Mr. Ullman) as a group. The charts illustrate our emphasis on performance-based at risk compensation, which for this purpose includes performance-based cash bonus, performance-based restricted stock units, and stock options. Specifically, in fiscal 2016, performance-based compensation comprised 71% of Mr. Ellison's target annual pay and 59% of target annual pay for our other named executive officers (other than Mr. Ullman).

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**Compensation Discussion and Analysis**

CEO Realizable Pay. The value of actual pay that can be realized can and often does differ substantially from the intended target compensation values. To further demonstrate the link between CEO compensation and Company performance, the chart below compares Mr. Ellison's 2015 and 2016 target compensation and realizable pay as of the end of fiscal 2016.

- (1) Target compensation includes base salary, the target annual cash bonus award value (including a supplemental one-time award in 2015) and the grant date value of long-term incentive awards.
- (2) Realizable compensation includes base salary, the annual cash bonus amount earned and the fiscal 2016 year-end value of long-term incentive awards as follows: (a) the intrinsic value of stock options, (b) TBSUs valued at year-end stock price and (c) PBRsUs valued at year-end stock price as follows: 2015 award valued at earned amounts for the 2015 and 2016 performance periods and at target for the 2017 performance period, and 2016 award valued at target as performance results cannot yet be estimated.

Key Features of Our Executive Compensation Program. The Company's executive compensation program includes key features that align the interests of the named executive officers with stockholders.

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**Compensation Discussion and Analysis**

What We Do

Vast majority of pay is based on Company financial performance and is not guaranteed

Balance the focus of our short-term and long-term incentive programs by using different performance metrics for each plan

Multiple long-term incentive vehicles link pay to internal performance goals and/or to external market performance

Impose robust stock ownership guidelines, with holding requirement for CEO until guideline is met

Have clawback policy for both cash and equity awards

Impose stringent restrictive covenants on those who receive awards under our long-term incentive program

Conduct annual risk assessment of executive pay programs

Review tally sheets for executive officers

Independent compensation consultant who reports only to the HRCC

What We Don't Do

û No excise tax gross ups

û No single trigger change in control plans

û No hedging or pledging of Company stock

û No stock options granted below fair market value

û No option repricing without stockholder approval

***2016 Say-on-Pay Vote and Stockholder Outreach***

Approximately 79% of votes cast by the Company’s stockholders at the 2016 annual meeting were cast in favor of the Company’s executive compensation program. Although still strong, this was notably lower than the 92% support we received in 2015. To better understand this decline, we reached out to stockholders representing over 60% of our outstanding common stock to seek feedback.

The few comments voiced by our stockholders related to the topics outlined in the table below. We have examined each of these situations carefully, and we believe we have taken actions, or had already taken actions, that appropriately address the concerns raised. Those actions are described in the table below and are further described either in the letter to stockholders from the Chair of the Committee that precedes this CD&A, or in later sections of this CD&A.

<b>Topics</b>	<b>Rationale</b>
Length of CEO transition plan resulting in a similar level of payments to two chief executives	This transition process was deliberately designed to take place over two years to enable Mr. Ellison to benefit from Mr. Ullman’s extensive knowledge of the Company and the apparel retail industry. Further, as disclosed earlier, Mr. Ullman’s total target pay in 2016 was significantly reduced from 2015 as the transition process was winding down.

**Table of Contents****Compensation Discussion and Analysis**

<b>Topics</b>	<b>Rationale</b>
Level of senior management turnover resulting in severance payments	During the CEO transition period, and recognizing that the Company remains in a period of transformation, changes were identified within the senior leadership team that were necessary to ensure the Company has the right team in place that can successfully execute on the Company's business priorities in this evolving retail landscape. No such payments have been disclosed for 2016, as those changes occurred in the prior year.
The benchmarking peer group contains outsized peers	The Committee considers various size parameters in choosing the peer group. Although the focus is on peers with revenues, market cap and enterprise values that typically range between 0.33x-3.0x of ours, the current peer group deliberately includes a few companies outside this range because they are key competitors for executive talent. Further, although market cap is often cited in peer group selection, at present the Committee views enterprise value as more relevant in light of our current capital structure, with the result that a significant majority of the peers fell within the prescribed range of enterprise values.
Lack of relative metrics used in our long-term incentive plan	The Committee annually reviews the metrics used in our long-term incentive plan and, from time to time, has considered the use of relative metrics. However, due to volatility in the Company's stock and the financial uncertainty across the retail sector in general, the Committee concluded that relative metrics are not yet appropriate for JCPenney.
We believe a continuing, constructive dialogue with our long-term stockholders on matters such as executive compensation and corporate governance matters will ensure that our programs remain aligned with their interests. We welcome stockholder feedback as a way to provide us with further insight and understanding of their views on our programs.	
Going forward, the Committee will continue to evaluate and make changes to programs to reflect the Company's evolving business circumstances. Our goal is to ensure the Company has the appropriate compensation programs in place to most effectively link pay-for-performance, to create stockholder value over the long-term, to be consistent with good governance practices, to attract and retain critical talent and to align with the Company's business strategies.	

***Establishing Our Executive Compensation Program***

***Role of the Human Resources and Compensation Committee.*** The Committee is responsible for establishing and implementing our executive compensation program. Each member of the Committee is independent under the listing standards of the New York Stock Exchange (NYSE).

The Committee determines compensation for officers of the Company at the level of Senior Vice President and above other than the CEO. The compensation of the CEO is determined by all of the independent directors of the Board.

As part of the Committee's deliberations, the CEO makes compensation recommendations for the executive officers other than himself. The Committee considers these recommendations in making its determinations.



**Table of Contents****Compensation Discussion and Analysis**

**Role of Independent Compensation Consultant.** The Committee engages an independent consultant to assist in its deliberations and decision-making regarding executive compensation. The Committee's consultant provides current market research and analyses against which executive compensation programs and proposals can be evaluated, including a review of competitive market trends and design practices, a review of the Company's peer group, and market benchmarking for officers at the level of Senior Vice President and above. The independent consultant does not assist the Board on director compensation matters. The Committee has sole authority to retain and terminate its consultant and sole authority to approve the fees and other terms of the engagement of its consultant. The independent consultant reports directly to the Committee and does not work for the Company's management in any capacity.

For fiscal 2016, the Committee retained Meridian Compensation Partners LLC (Meridian) as its independent consultant. In retaining Meridian as its consultant, the Committee considered all factors relevant to Meridian's independence from management in accordance with the listing standards of the NYSE.

**Role of Management.** Management makes recommendations to the Committee regarding the design and implementation of our executive compensation programs. Management works with its outside executive compensation consultant, Frederic W. Cook & Co., Inc. (FW Cook), in making recommendations that are consistent with the Company's philosophy and objectives. The Committee may review data and analyses provided by management and its consultant. FW Cook does not work for the Committee or the Board in any capacity.

**Role of Peer Companies and Benchmarking.** Understanding the competitive market for executive talent in our industry is critical to ensuring that we can attract and retain a strong leadership team. Accordingly, we benchmark the competitiveness of pay for our named executive officers, and for our various compensation programs in general, against the practices of a carefully-constructed and select group of retailers we view as our peers.

For 2016, the Committee selected the following companies as our benchmarking peers:

Ascena Retail Group, Inc.	L Brands, Inc.	Sears Holdings Corp.
Bed Bath & Beyond Inc.	Macy's, Inc.	Staples, Inc.
Best Buy Co., Inc.	Nordstrom, Inc.	Target Corp.
Gap, Inc.	Office Depot, Inc.	TJX Companies, Inc.
Kohl's Corp.	Ross Stores, Inc.	

To develop this peer group, the Committee focused on retailers with business characteristics similar to ours and that align with the Company's strategic direction. In general, the peer group includes mall anchors, department stores and other retailers who offer the same or similar products in most cases, whose customers are influenced by similar broad economic trends in spending and whose operations are primarily domestic.

The Committee considers various size parameters in choosing the peer group. Although the focus is on peers with revenues, market cap and enterprise values that typically range between 0.33x-3.0x of ours, the current peer group deliberately includes a few companies outside this range because we view them as key competitors for executive talent. Further, although market cap is often cited in peer group selection, at present the Committee views enterprise value as more relevant in light of our current capital structure, with the result that a significant majority of the peers fell within the prescribed range of enterprise values.

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**Compensation Discussion and Analysis**

The Committee reviews and approves the peer group each year, and in so doing considers information provided by the Committee's independent consultant and management. For 2017, the Committee re-evaluated the composition of the peer group and determined that it continues to reflect our key competitors for executive talent. Based on this conclusion, the Committee determined that the peer group remains appropriate and that changes were not necessary.

We also review retail industry surveys to benchmark pay for executive officer positions for which proxy peer group data are not available.

For fiscal 2016, a key element of our compensation benchmarking philosophy was to target total direct compensation for our executive officers at or around the median percentile of the national market represented by our peer group and/or survey data for relevant positions. Based on the compensation analysis reviewed by the Committee in early 2016, the total target direct compensation for our CEO, after the adjustments described in the following paragraphs, fell significantly below the median of the peer group. Where necessary, particularly with respect to new hires, we may target total direct compensation above the median percentile to attract and retain critical talent.

*Internal Pay Relationships.* Our compensation philosophy reflects the importance of offering a competitive target compensation package. In general, the differences in pay between the named executive officers relative to each other and to the CEO, as well as to non-managerial associates, are based on market differences for the particular job, job responsibilities and scope, and adjustments for individual experience and performance, rather than a pre-determined ratio or multiple.

*Relationship of Executive Compensation to Risk.* In connection with fulfilling its responsibilities, the Committee considers whether the design of the Company's executive compensation program encourages executives to engage in excessive risk-taking. The Committee reviews the overall program design, as well as the balance between short-term and long-term compensation, the metrics used to measure performance and the total award opportunity under the Company's incentive compensation program, and other features designed to mitigate risk such as incentive caps, vesting requirements, stock ownership guidelines, insider trading policy, the Company's claw-back policy and the Company's prohibition on hedging and pledging of Company securities by directors and senior management. Based on its review, the Committee believes that the Company's executive compensation program is aligned with the interests of stockholders, appropriately rewards pay for performance and does not promote unnecessary or excessive risk.

***Compensation of Our Named Executive Officers***

In 2016, our executive compensation program had three principal components:

- Base salary;
- Annual cash bonus awards; and
- Long-term equity incentive awards.

Consistent with our pay-for-performance philosophy, the majority of the compensation opportunity in fiscal 2016 for our named executive officers was linked to Company performance. We believe that our combination of annual cash bonus awards and long-term incentive awards strikes the appropriate balance between our near-term focus on Company performance and our long-term focus on stockholder value creation.

Base Salary. We review base salaries annually, and focus on ensuring they are competitive based on market data for comparable positions at companies in our peer group. Merit increases are intended



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to reward individual performance and ensure that the individual's base salary remains competitive for the position and level of responsibility. Periodically, we also make adjustments to ensure that the salary for a key role remains competitive with the market.

Several of our named executive officers received salary adjustments during the year primarily to align with market movement but in one case to also reflect an expanded scope of responsibility, as outlined below. Despite the increase in our CEO's base salary, the total compensation realized by our CEO in 2016 was less than the compensation realized by our CEO in 2015. The Summary Compensation Table presents the named executive officers' actual salaries for 2016.

<b>Name</b>	<b>Prior Year Base Salary</b>	<b>Salary After Adjustment</b>	<b>Percentage Change</b>	<b>Basis for Adjustment</b>
Marvin R. Ellison	\$ 1,400,000	\$ 1,450,000	3.6%	Align with market, contributions to Company and performance as CEO
Edward J. Record	\$ 800,000	\$ 824,000	3.0%	Merit increase
Mary Beth West	\$ 700,000	\$ 721,000	3.0%	Merit increase
John J. Tighe	\$ 630,000	\$ 700,000	11.1%	Align with market based on role and assumption of additional responsibilities
Joseph M. McFarland	\$ 650,000	\$ 650,000		Newly hired in January 2016

As noted, Mr. Ullman's salary rate remained constant, and he received \$750,000 in base salary for the portion of the year he was employed by us.

For 2017, the independent directors considered their overall assessment of Mr. Ellison's and the Company's performance in 2016 and determined that Mr. Ellison's base salary should not be increased.

**Annual Cash Bonus Awards.** Annual cash bonuses are determined and paid pursuant to the MICP, which provides named executive officers as well as other management associates the opportunity to earn cash awards based on the achievement of specified Company goals. For fiscal 2016, the annual cash bonus was again split into a Spring performance period and a Fall performance period to better align with key near-term objectives and to reflect the volatility of the retail sector. The plans are structured as follows:

The Spring period measured performance for the first and second fiscal quarters, and the Fall period measured performance for the third and fourth fiscal quarters.

To align with the Company's business cycle, the Spring and Fall performance periods accounted for 40% and 60%, respectively, of each named executive officer's annual target bonus opportunity.

To increase retention, payouts for both performance periods are only made after the end of the fiscal year.

The program structure provides each participant with an annual target bonus opportunity that is a percentage of the individual's base pay. The range of potential payouts for each of the named executive officers is presented in the Grants of Plan-Based Awards Table.

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The fiscal 2016 annual target bonus opportunity for each of our named executive officers (other than Mr. Ullman, whose opportunity was discussed previously) is shown below. Targets for 2016 were at the same level as for the prior year.

Name	Annual Target Bonus Opportunity (% of Salary)
Marvin R. Ellison	175%
Edward J. Record	75%
Mary Beth West	75%
John J. Tighe	75%
Joseph M. McFarland	75%

For the named executive officers, both the Spring and Fall performance periods provided that awards could be earned based on performance against pre-established goals for the Company's sales, operating profit and GPROI. The metrics were weighted as follows:

Metric	Weighting
Sales	50%
Operating Profit	30%
GPROI	20%

The Committee and, with respect to the CEO, the independent directors of the Board, selected these metrics to drive revenue growth, increases in market share and the development of new initiatives while also maintaining a focus on profitability and inventory levels. The weighting for the sales metric was increased from 40% to 50% in 2016 to emphasize the importance of driving top line results. The weighting for the operating profit metric was unchanged from 2015 to continue a focus on overall profitability, with the result that the weighting of the GPROI metric was decreased from 30% to 20%. Results for each metric in the annual cash bonus program are measured separately.

For purposes of the bonus program, GPROI was determined by dividing total gross profit for the applicable period by average inventory cost for the same period. For the Spring performance period, operating profit was defined as reported operating profit excluding qualified pension expense, bonus and equity expense, real estate and other, and restructuring and management transition charges. For the Fall performance period, operating profit was defined to exclude the same items as the Spring performance period as well as supplemental pension expense.

Performance goals for each of the Spring and Fall plans were established at the beginning of the respective performance periods, taking into account both historical results as well as expectations in light of the current business climate and the Company's strategic initiatives. The target Sales and Operating Profit goals for the 2016 Spring and Fall performance periods were set above the target goals and actual results achieved for each period, respectively, in 2015. Based on the Company's 2016 focus on several top line growth strategies intended to drive longer-term financial results, the target GPROI goals for the Spring and Fall performance periods were set slightly below the target goals and actual results for the comparable periods in 2015.

At the end of each performance period, a payout factor ranging from 25% to 200% of the target bonus opportunity was calculated for each metric based on performance results achieved. For each component, no payout would occur for results below the threshold goal.

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*Spring Performance Period.* The performance goals, potential payout levels and actual awards earned for the Spring performance period are indicated below. Based on the Company's performance and the relative weightings of each of the performance metrics, each of the named executive officers earned cash bonuses equal to 60.5% of their respective Spring performance period target opportunities.

Performance Metric	Weighting	Threshold (25%)	Target (100%)	Maximum (200%)	Actual	Payout %
Sales	50%	\$ 5,672	\$ 5,908	\$ 6,145	\$ 5,729	43.7%
Operating Profit	30%	\$ 26	\$ 126	\$ 276	\$ 125	99.2%
GPROI	20%	0.7781	0.8645	0.9510	0.8009	44.5%

**Cash Bonus earned as percent of Spring Bonus opportunity (40% weighting) 60.5%**

*Fall Performance Period.* The performance goals, potential payout levels and actual awards earned for the Fall performance period are indicated below. Based on the Company's performance, which was below threshold for all performance metrics, none of the named executive officers earned a cash bonus payout for the Fall performance period.

Performance Metric	Weighting	Threshold (25%)	Target (100%)	Maximum (200%)	Actual	Payout %
Sales	50%	\$ 6,864	\$ 7,150	\$ 7,436	\$ 6,818	0.0%
Operating Profit	30%	\$ 359	\$ 459	\$ 609	\$ 290	0.0%
GPROI	20%	0.8394	0.9327	1.0259	0.8350	0.0%

**Cash Bonus earned as percent of Fall Bonus opportunity (60% weighting) 0.0%**

Note: For both the Spring and Fall plans, the payout percentage is interpolated on a straight-line basis for points in between the threshold and maximum goals.

As a result of the Company's full year performance and the relative weightings of each of the performance metrics, each of the named executive officers (other than Mr. Ullman) earned cash bonuses equal to 24.2% of their respective annual cash bonus opportunities. The total annual cash bonus payouts for 2016 for each of the named executive officers are reflected in the Summary Compensation Table under the column Non-Equity Incentive Plan Compensation.

Long-Term Incentive Awards. For fiscal 2016, the annual long-term incentive awards to our named executive officers were made under the 2014 Long-Term Incentive Plan (the 2014 Plan). The 2014 Plan provided equity-based awards to eligible associates, including the named executive officers, other Company officers and senior management associates. Generally, whether an associate is granted an award and the size of the award granted are functions of the associate's position, performance and potential.

The potential number of shares used for annual long-term incentive awards for each participant was based on a predefined target equity dollar value for the participant. The target equity dollar value is determined by position and expected future contributions, taking into consideration competitive market data for comparable positions at

companies in our peer group and the Company's overall equity plan budget for the year.

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For fiscal 2016, we again granted long-term incentive awards to the named executive officers (other than Mr. Ullman) that included performance-based restricted stock units, time-based restricted stock units and non-qualified stock options in the following mix:

The Committee and, with respect to the CEO, the independent directors of the Board, believe this mix best balances our dual goals of ensuring that executives maintain a long-term focus on stockholder value creation and retaining key leaders.

The table below sets forth the 2016 target equity dollar values for the named executive officers (other than Mr. Ullman who did not receive an equity award).

<b>Name</b>	<b>Target Equity Dollar Value of Performance-Based Restricted Stock Units</b>	<b>Target Equity Dollar Value of Stock Options</b>	<b>Target Equity Dollar Value of Time-Based Restricted Stock Units</b>	<b>Total Target Equity Dollar Value</b>
Marvin R. Ellison	\$ 3,500,000	\$ 1,750,000	\$ 1,750,000	\$ 7,000,000
Edward J. Record	\$ 750,000	\$ 375,000	\$ 375,000	\$ 1,500,000
Mary Beth West	\$ 750,000	\$ 375,000	\$ 375,000	\$ 1,500,000
John J. Tighe	\$ 500,000	\$ 250,000	\$ 250,000	\$ 1,000,000
Joseph M. McFarland	\$ 500,000	\$ 250,000	\$ 250,000	\$ 1,000,000

Mr. Ellison's 2016 total target equity dollar value represents a modest increase from 2015 (3.7%). The independent directors of the Board determined in early 2016 that this increase was appropriate to reward Mr. Ellison for his performance and the Company's performance in 2015 and in light of the fact that the value of Mr. Ellison's equity award was significantly below the median of our peer group.

Equity awards granted to our named executive officers in early 2017 were not increased from their 2016 levels.

The following paragraphs describe each type of award in greater detail.

*Performance-Based Restricted Stock Units.* To determine the number of performance-based restricted stock units granted to each named executive officer who received an award, we divided the target equity dollar value allocated to these awards by the closing share price of our common stock on the date of grant. The actual awards earned can vary above or below the target award based on the extent to which the Company achieves the performance measure goal established for the program.





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**Compensation Discussion and Analysis**

Performance with respect to these awards will be measured by reference to the Company's adjusted EBITDA for fiscal 2018. The Committee and the independent directors of the Board chose adjusted EBITDA as the performance measure for the performance-based restricted stock unit awards to align with the Company's long-term EBITDA goals. Adjusted EBITDA is defined for this purpose as earnings before interest, taxes, depreciation and amortization, excluding qualified pension plan expense, bonus and equity expense, real estate and other, and restructuring and management transition charges.

The adjusted EBITDA goal for fiscal 2018 was set at the beginning of fiscal 2016, is viewed as challenging to achieve and requires significant overall growth over the level achieved in fiscal 2015. The Committee views the adjusted EBITDA target for fiscal 2018 as inherently equivalent to a cumulative three-year metric because to achieve this goal the Company must deliver strong results and make significant progress towards the goal in each of the intervening fiscal years.

At the end of fiscal 2018, the percentage of the target award earned will be determined pursuant to the payout matrix established for the program. The payout matrix sets forth a range of payout percentages relative to the Company's actual results for the performance period. The payout percentages under the payout matrix range from 25% to 200% of the target award with a 100% payout for achieving the target performance goal. No payout will occur for results below the threshold goal. The range of potential payouts is presented in the Grants of Plan-Based Awards Table.

Earned units will vest on the third anniversary of the date of grant provided the executive officer remains continuously employed with the Company through that date.

*Stock Options.* The stock options awarded to the named executive officers who received awards vest ratably (one-third per year) over a three-year period provided that the participant remains continuously employed with the Company during that time.

The stock options are intended to align the participants' interests with those of our stockholders and have an exercise price equal to the closing price of Company common stock on the date of grant. Accordingly, they have value to the recipient only if the market price of the common stock at the time of exercise is above the option exercise price. They cannot be exercised more than ten years after the date of grant.

To determine the number of stock options granted to each of the named executive officers who received awards, we divided the target equity dollar value allocated to these awards by the fair value of the stock option on the date of grant. The fair value was calculated pursuant to a binomial lattice model, which is the same model used for purposes of measuring compensation expense for stock options in the Company's financial statements.

*Time-Based Restricted Stock Units.* Each time-based restricted stock unit represents the right to receive one share of our common stock on the vesting date. The units vest in full on the third anniversary of the grant date provided the participant remains continuously employed with the Company until that time. These units have value in all market conditions; thus they provide a strong retention mechanism. Since the ultimate value of the award depends on the market value of our common stock on the vesting date, the interests of participants are also aligned with stockholders.

To determine the number of time-based restricted stock units granted to each of the named executive officers who received awards, we divided the target equity dollar value allocated to these awards by the closing share price of our

common stock on the date of grant.

*Restrictive Covenants.* By accepting the 2016 annual long-term incentive awards, each named executive officer agreed to comply with the following restrictive covenants:

Obligation not to disclose confidential or proprietary information of the Company;

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Obligation to refrain from activities designed to influence or persuade any person not to do business or to reduce its business with the Company;

Obligation to refrain from attempting to influence or persuade any of the Company's employees to leave their employment with the Company and to refrain from directly or indirectly soliciting or hiring employees of the Company; and

Obligation not to undertake work for a competing business.

For the named executive officers that received a 2016 long-term incentive award, each of the above restrictive covenants continues for 18 months following termination of employment if the named executive officer voluntarily terminates employment with the Company or is involuntarily terminated other than for cause, except for the obligation not to disclose confidential or proprietary information, which continues indefinitely following any termination of employment.

*2015 Performance-Based Restricted Stock Unit Awards Earned.* In 2015, the Company granted performance-based restricted stock units to our named executive officers (other than Mr. McFarland and Mr. Ullman) that could be earned only to the extent we achieved performance goals for adjusted EBITDA for each of three one-year performance periods. Mr. McFarland, who did not join the Company until January 2016, did not receive a 2015 performance-based restricted stock unit award. As previously disclosed, in view of Mr. Ullman stepping down as CEO in 2015, he received an award based solely on fiscal 2015 financial results that vested on the first anniversary of the date of grant but will not be paid out to him until the third anniversary of the date of grant.

The performance period for the 2015 performance-based restricted stock units consists of three one-year performance cycles beginning with fiscal 2015. Fiscal 2016 was the second performance cycle of the award. As previously disclosed, the Committee and the independent directors of the Board chose adjusted EBITDA as the performance measure for the performance-based restricted stock unit awards. Adjusted EBITDA is defined for this purpose as earnings before interest, taxes, depreciation and amortization, excluding qualified pension expense, bonus expense, real estate and other, net gains on the sale of non-operating assets, asset impairments, the effect of reclassifications of certain expenses, and restructuring and management transition charges.

The performance goals for the 2016 performance cycle were set at the beginning of fiscal 2016 pursuant to a formula that was pre-determined at the beginning of the first performance cycle. Under the pre-determined formula, the 2016 performance target was set at 115% of the Company's adjusted EBITDA performance for the prior year. Below are the range of 2016 performance goals and related payout factors for the 2015 performance-based restricted stock unit awards.

**2016 Performance Goals for****2015 Performance-Based Restricted Stock Unit Award**

	<b>Adjusted EBITDA</b> <b>(in millions)</b>	<b>Payout Percent</b>
Maximum	\$ 1,114	200%
Target	\$ 891	100%

Threshold	\$	535	25%
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Note: The payout percentage is interpolated on a straight-line basis for points in between the threshold and maximum goals.

At the end of the performance cycle, the percentage of the target award earned was determined pursuant to the payout matrix established for the awards. For fiscal 2016, the Company's adjusted EBITDA was \$961 million. Accordingly, each of the named executive officers who received awards

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### **Compensation Discussion and Analysis**

earned 131.4% of their target performance-based restricted stock unit award for the 2016 performance cycle. The earned units will not vest until the third anniversary of the date of grant provided the executive officer remains continuously employed with the Company through that date.

For equity awards outstanding for each of the named executive officers as of the end of fiscal 2016, see the Outstanding Equity Awards at Fiscal Year-End Table. Actual awards vesting or exercised during the fiscal year are presented in the Option Exercises and Stock Vested Table.

### ***Other Compensation Program Elements***

In addition to the three principal components of our compensation program, we also offer the following to our named executive officers, to help us attract and retain the most talented individuals:

- Retirement benefits;
- Health and welfare benefits, including medical and dental benefits, paid time off, and group term life insurance benefits;
- Termination arrangements; and
- Perquisites.

*Retirement Benefits.* As with the principal components of our compensation program, our retirement benefits are intended to provide an industry competitive level of benefits.

The principal retirement benefits that we currently offer to our associates, including our named executive officers, are through our defined contribution 401(k) plans, which include a traditional 401(k) plan (Traditional Savings Plan) and, beginning January 1, 2017, a safe harbor 401(k) plan (Safe Harbor Savings Plan), and our non-qualified defined contribution plan (Mirror Savings Plan). We refer to the Traditional Savings Plan and the Safe Harbor Savings Plan collectively as the Savings Plans. The Savings Plans and Mirror Savings Plan offer eligible associates the opportunity to defer a portion of their base salary and annual cash bonus compensation as a means of saving for retirement.

We also maintain certain retirement plans which were created in prior periods in connection with the Company's compensation philosophy and goals at the time. These legacy plans include a tax-qualified defined benefit Pension Plan (Pension Plan) and a nonqualified excess defined benefit plan (Benefit Restoration Plan or BRP), both of which were closed to new associates effective January 1, 2007. Mr. Tighe is the only named executive officer who participates in the Pension Plan and BRP. As described earlier, Mr. Ullman received his final required payment from the BRP as a result of his retirement from the Company in 2012.

Prior to January 1, 2017, all eligible associates could participate in the Traditional Savings Plan only. Beginning January 1, 2017, only associates participating in the Pension Plan may participate in the Traditional Savings Plan while all other eligible associates may participate in the Safe Harbor Savings Plan.

Each of the Savings Plans also includes a Company matching contribution feature as described below:

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For associates participating in the Pension Plan, the match is \$0.50 per dollar deferred up to a maximum of 6% of deferrals under the Traditional Savings Plan.

For associates not participating in the Pension Plan, prior to January 1, 2017, the match was \$0.50 per dollar deferred up to a maximum of 6% of deferrals under the Traditional Savings Plan.

For associates not participating in the Pension Plan, beginning January 1, 2017, the match is 100% per dollar deferred up to a maximum of 5% of deferrals under the Safe Harbor Savings Plan.

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**Compensation Discussion and Analysis**

The Mirror Savings Plan has similar features with respect to compensation in excess of the Internal Revenue Code (the Code) compensation limit for qualified plans.

Prior to January 1, 2017, for participants who do not participate in the Pension Plan, the Traditional Savings Plan included a non-contributory retirement account in which eligible participants received a Company contribution in an amount equal to 2% of the participant's annual pay after one year of service. The Mirror Savings Plan had a similar account with respect to compensation in excess of the IRS compensation limit for qualified plans. Participating associates are fully vested in this Company contribution after three years. Beginning January 1, 2017, the retirement account provision of the Traditional Savings Plan and Mirror Savings Plan was discontinued.

The Pension Plan and BRP are discussed in more detail in the narrative following the Pension Benefits Table. The Mirror Savings Plan is discussed in more detail in the narrative following the Nonqualified Deferred Compensation Table.

*Health and Welfare Benefits.* Our named executive officers are entitled to participate in active associates' health and welfare benefit plans, including paid time off, medical, dental, group term life insurance and disability insurance, on the same terms and conditions as those made available to associates generally. We provide these benefits as part of a competitive package of health and welfare benefits.

*Termination Arrangements.* In order to attract top retail talent, we recognize the need to provide protection to our executives in the event of involuntary termination of employment without cause or voluntary termination for good reason or following a change in control of the Company. Accordingly, we have put in place separate arrangements consisting of individual Executive Termination Pay Agreements and a Change in Control Plan to address termination situations not precipitated by the conduct of the named executive officer.

The Executive Termination Pay Agreement provides severance benefits to the executive in exchange for the executive's agreement to comply with certain restrictive covenants. The benefits payable under the Executive Termination Pay Agreement are not available if the executive receives the benefits under a Change in Control Plan.

*Change in Control Plan.* The Company has in place two Change in Control Plans (the CIC Plans) that provide benefits if the executive's employment is involuntarily terminated within two years following a change in control of the Company. The CIC Plans further provide that cash severance benefits will not exceed 2.99 times the sum of base salary and target bonus (the severance benefits limitation).

The 2011 Change in Control Plan (the 2011 CIC Plan) defines a change of control as:

- the acquisition by any person, entity or group of 30% or more of the Company's outstanding common stock;
- the replacement of a majority of the Board;
- a reorganization, merger or consolidation, or the sale of all or substantially all of the Company's assets, subject to certain exceptions; or
- a complete liquidation or dissolution of the Company.

All of the named executive officers, other than Mr. Tighe, participate in the 2011 CIC Plan.





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**Compensation Discussion and Analysis**

The 2009 Change in Control Plan (the 2009 CIC Plan) is applicable to senior executive officers who became eligible for benefits under the change of control plan after October 2008 and prior to 2011 and is substantially similar to the 2011 CIC Plan except that a change in control is defined as the acquisition of 20% or more of the Company's outstanding common stock. Mr. Tighe participates in the 2009 CIC Plan.

Neither of the CIC Plans provides for the payment of excise tax gross-ups to named executive officers. The CIC Plans and the Executive Termination Pay Agreement are described in more detail in *Potential Payments and Benefits on Termination of Employment* beginning on page 55.

*Perquisites.* We provide certain additional benefits to enable our executives to devote their energy and attention to the Company.

*Company Aircraft.* For security purposes, the Board requires the CEO and, in 2016, required the Executive Chairman, to participate in a Key Associate Protection Program (the KAPP), which is intended to safeguard the CEO and Executive Chairman and members of their immediate families. The KAPP is a program approved by the Board as a result of recommendations contained in an independent, third-party security study. As part of the KAPP, the CEO is and, in 2016, the Executive Chairman was, required to use Company aircraft for all business and personal travel.

The Company does not generally make Company aircraft available for non-Company business use by Company associates, other than to the CEO and Executive Chairman as recommended by the KAPP. However, in an emergency and/or other unusual circumstance, a Company associate may be permitted to travel on the Company aircraft for personal reasons, provided the travel is approved by the CEO or by the member of the management team with immediate management responsibility for the Aviation Department. Income is imputed to associates, including the CEO and Executive Chairman, for personal use of Company aircraft in accordance with IRS regulations. The Company does not provide a tax gross-up with respect to such imputed income.

For total compensation purposes, we calculate the aggregate incremental cost to the Company of personal use of the Company aircraft by determining the incremental nautical miles flown, including any deadhead legs, and multiplying that number by the cost to the Company per nautical mile. These amounts are reflected as All Other Compensation to the named executive officer in the Summary Compensation Table below. The amount reflected for total compensation purposes is often higher than the amount imputed to associates under IRS regulations.

A nautical mile is a unit of length used for maritime and aviation purposes. The cost per nautical mile excludes fixed costs which do not change based on usage, such as pilots' or other associates' salaries, purchase costs of the aircraft, or non-trip-related hangar expenses. It is derived from the aircraft's variable operating costs, which include:

- Aircraft fuel expenses;
- Supplies and catering;
- Crew travel expenses;
- Landing and parking expenses; and
- Aircraft maintenance and external labor.

*Annual Health Exam.* In fiscal 2016, the named executive officers were eligible to receive an allowance of up to \$3,000 for an annual health exam. The Company does not provide a tax gross-up on this benefit. We value the benefit based on the actual charges incurred by the Company for the services provided, which is reflected as All Other Compensation in the Summary Compensation Table below.

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*Relocation.* The Company provides tiered relocation benefits to all associates based on the associate's position within the organization. At the commencement of their respective employments with the Company, Ms. West and Mr. McFarland did not maintain residences near the Company's Home Office in Texas. The Company provided relocation benefits to each of them for their respective commuting and temporary housing expenses consistent with Company policy for their positions. We value the benefits based on the actual charges incurred by the Company for the benefits provided reduced by the amount of charges permitted under the Company's policy for the lowest level of benefits provided under the policy. These amounts are reflected as All Other Compensation in the Summary Compensation Table below.

***Equity Award Grant Policy***

The Committee has adopted a Policy Statement which sets forth its practices regarding the timing of, and approval process for, equity awards. In certain cases, the Committee may waive such policy. The following table sets forth the current Policy Statement.

<b>Grant</b>	<b>Grant Date</b>
Annual Grant	Third full trading date after Committee approval.
Off-cycle grants other than to new hires	Tenth full trading date of the calendar month if the promotion or award is effective or approved by the seventh trading day of the month; otherwise, tenth full trading date of the following calendar month.
Off-cycle grants for new hires	For Senior Vice Presidents and above, third full trading date following the date of hire.  For all other associates, tenth full trading date of the calendar month if the date of hire is on or before the seventh trading day of the month; otherwise, tenth full trading date of the following calendar month.

The Committee also adheres to the following approval policies in making equity awards to associates:

Equity awards to the CEO must be approved by the independent directors of the Board.

Equity awards to executive officers other than the CEO, including new hires, must be approved by the Committee.

The aggregate annual grant of equity awards to associates must be approved by the Committee.

The authority to approve equity awards to new hires who are not executive officers has been delegated by the Committee to the CEO and/or the Executive Vice President, Human Resources.

The authority to approve off-cycle equity awards to associates who are not executive officers has been delegated by the Committee to the CEO and/or the Executive Vice President, Human Resources.

*Tally Sheets*

In 2016, the Committee reviewed tally sheets for our named executive officers (other than Mr. Ullman), and for select other executives. These tally sheets provide a comprehensive view of

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target, actual and contingent executive compensation payouts under a variety of termination and performance scenarios. The tally sheets allow the Committee to understand the cumulative effect of prior pay decisions and stock performance, as well as the retentive ability of existing long-term incentives, severance and change in control arrangements. The tally sheets are intended to facilitate the Committee's understanding of the nature and amounts of total compensation under our executive compensation program and to assist the Committee in its overall evaluation of our program.

***Stock Ownership Goals***

The Company strives to align pay with the long-term interests of stockholders. The Board has adopted formal stock ownership goals for senior executives of the Company. The stock ownership goals specify that, within a five-year period, executives should hold an amount of Company stock having a value of:

<b>Role</b>	<b>Stock Ownership Requirement</b>
Chief Executive Officer	6x base salary
Executive Vice President	3x base salary
Senior Vice President	1x base salary

In addition to directly owned stock, shares held in Company qualified and non-qualified savings plans and unvested time-based restricted stock units are included in calculating ownership levels. Unexercised stock options do not count toward the ownership goals. The stock ownership goals also specify that the CEO should retain at least 50% of net shares received pursuant to an equity award payout or exercise if the CEO is below the above-described ownership goal at the time of receipt. All of the named executive officers have met or are on track to meet these goals.

***Tax Implications of Our Compensation Policies***

Section 162(m) of the Code places a limit of \$1,000,000 on the amount of compensation that we may deduct in any given year with respect to the CEO and certain of our other most highly paid executive officers. There is an exception to the \$1,000,000 limitation for performance-based compensation meeting certain requirements. Our stock option awards and performance-based restricted stock unit awards generally are performance-based compensation meeting those requirements and, as such, are typically fully deductible. Performance-based cash bonus compensation awards under the MICP may also be tax deductible. Our annual base salary and time-based restricted stock units are generally subject to the Section 162(m) deduction limitations. To maintain flexibility in compensating executive officers in view of the overall objectives of our compensation program, the Committee has reserved the right to grant compensation that is not tax deductible should it determine that doing so will better meet the Company's objectives.

***Claw-Back Policy***

One of the objectives of our compensation program is to make a substantial portion of compensation dependent on the Company's overall financial performance. In the event of a financial restatement arising out of the willful actions, including without limitation, fraud or intentional misconduct, or the gross negligence of any participant in the Company's compensation plans or programs, it is the Board's policy that the Committee shall have the authority to determine the appropriate action to take. The compensation plans or programs covered under this policy include,

without limitation, cash bonus and stock incentive plans, welfare plans or deferred compensation plans. The Committee's actions under the policy may include requiring relinquishment (claw-back) of previously awarded equity-based incentive compensation and/or repayment of previously paid cash compensation to a participant under such plans and programs.

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**Compensation Discussion and Analysis**

***Prohibition on Hedging and Pledging of Company Stock***

The Board considers it inappropriate for directors or executive officers to enter into speculative transactions in Company securities. The Company's Corporate Governance Guidelines prohibit directors and senior management from engaging in short sales, options trading or other similar derivative transactions in Company securities, or hedging or monetization transactions, such as zero-cost collars and forward sale contracts, in which the individual continues to own the underlying security without the full risks and rewards of ownership. In addition, the Company's directors and senior management may not purchase Company securities on margin, hold Company shares in a margin account or pledge Company shares as collateral for a loan because a margin sale or foreclosure sale may occur at a time when such director or officer is prohibited from trading under the Company's insider trading policy.

**REPORT OF THE HUMAN RESOURCES AND COMPENSATION COMMITTEE**

The Human Resources and Compensation Committee of the Board assists the Board in discharging the Board's responsibilities relating to compensation of the Company's executives, reviews plans and proposals on management succession and major organizational or structural changes, and oversees the administration, financial and investment performance and operation of the Company's retirement and welfare plans. Each member of the Committee is considered independent for purposes of applicable NYSE listing standards as well as the Standards for Determination of Director Independence. You can learn more about the Committee's purpose, responsibilities, composition and other details by reading the Human Resources and Compensation Committee's charter, which is available online at [www.jcpenney.com](http://www.jcpenney.com).

The Human Resources and Compensation Committee has reviewed the Compensation Discussion and Analysis and discussed the same with management. Based on our review and discussions with management, we recommended to the Board of Directors that the Compensation Discussion and Analysis be included in the Company's Annual Report on Form 10-K for the 2016 fiscal year and the Company's 2017 Proxy Statement. This report is submitted by the following independent directors, who comprise the Human Resources and Compensation Committee:

Ronald W. Tysoe, Chair  
Colleen C. Barrett  
Paul J. Brown

Amanda Ginsberg  
J. Paul Raines  
R. Gerald Turner

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**Table of Contents****Summary Compensation Table****SUMMARY COMPENSATION TABLE**

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$) <sup>(1)</sup>	Option Awards (\$) <sup>(1)</sup>	Non-Equity Incentive Plan Compensation (\$) <sup>(2)</sup>	Change in Pension Value and Non-qualified Deferred Compensation	All Other Compensation (\$)	Total (\$)
							Earnings (\$) <sup>(3)</sup>		
Marvin R. Ellison Chairman of the Board and Chief Executive Officer	2016	1,446,667	0	5,249,996	1,750,000	614,177	0	309,986 <sup>(4)</sup>	9,370,826
	2015	1,350,000	0	5,062,497	1,687,499	3,572,655	0	379,786	12,052,437
	2014	325,000	4,140,000	15,000,002	0	0	0	142,383	19,607,385
Edward J. Record Executive Vice President and Chief Financial Officer	2016	812,000	0	1,124,997	375,000	149,581	0	67,189 <sup>(5)</sup>	2,528,767
	2015	785,833	0	1,545,003	375,000	932,124	0	24,813	3,662,773
	2014	642,045	1,295,750	2,749,998	750,000	250,343	0	11,380	5,699,516
Mary Beth West* Executive Vice President, Chief Customer and Marketing Officer	2016	710,500	0	1,124,997	375,000	130,883	0	73,767 <sup>(6)</sup>	2,415,147
John J. Tighe	2016	695,333	0	749,998	250,000	127,071	304,970 <sup>(7)</sup>	31,070 <sup>(8)</sup>	2,158,442



Executive Vice President, Chief Merchant									
Joseph M. McFarland	2016	650,000	0	749,998	250,000	117,995	0	56,692 <sup>(9)</sup>	1,824,685
Executive Vice President, Stores									
Myron E. Ullman, III**	2016	750,000	0	0	0	1,135,355 <sup>(10)</sup>	(11)	1,238,289 <sup>(12)</sup>	3,123,644
Retired									
Executive	2015	1,500,000	0	2,359,267	3,025,000	4,660,620		1,271,687	12,816,574
Chairman	2014	1,500,000	0	2,131,577	2,750,000	1,591,770		1,688,676	9,662,023

\* Ms. West has notified the Company that she is voluntarily terminating her employment, effective April 1, 2017.

\*\* Mr. Ullman retired from the Company effective August 1, 2016.

- (1) See Note [13] to the Consolidated Financial Statements of J. C. Penney Company, Inc. and subsidiaries, as included in the Company's Annual Report on Form 10-K for the fiscal year ended January 28, 2017, for a discussion of the assumptions underlying the valuation of stock options. The value of stock awards is calculated in accordance with FASB ASC Topic 718 and applicable FASB guidance. The values of the performance-based restricted stock unit awards are based upon the probable outcome of the performance goals as of the grant date consistent with the estimate of aggregate compensation cost to be recognized over the service period determined as of the grant date under FASB ASC Topic 718, excluding the effect of estimated forfeitures. That value is the same as the value calculated assuming the target level of performance under the award. The values of the performance-based restricted stock unit awards as of the grant date, assuming that the maximum level of the performance goals will be achieved, are as follows: Mr. Ellison - \$6,999,995; Mr. Record - \$1,499,996; Ms. West - \$1,499,996; Mr. Tighe - \$999,990; and Mr. McFarland - \$999,990.
- (2) The amounts shown in this column reflect payments made under the MICP.
- (3) The amounts shown in this column for 2016 reflect the aggregate change in the actuarial present value from January 31, 2016 to January 31, 2017 (the pension plan measurement date used for financial statement purposes) of the named executive officer's accumulated benefit under all defined benefit plans in which he or she participates. The Company does not provide above-market or preferential earnings on nonqualified deferred compensation.
- (4) The amount shown in this column for Mr. Ellison includes Company contributions or allocations to Mr. Ellison's account in the Savings Plans for fiscal 2016 of \$10,050. In addition, the amount shown reflects Company matching charitable contributions in the amount of \$10,000 on behalf of Mr. Ellison under the Directors' Matching Fund in fiscal 2016. The amount further includes the value of the following perquisites received by Mr. Ellison during fiscal 2016: personal use of corporate aircraft, \$278,732; home security systems, \$2,128; and security services, \$9,076. For security purposes, the CEO participates in a Key Associate Protection Program, which requires that he use Company aircraft for all business and personal travel. Income is imputed for personal use of Company aircraft. The Company does not provide a tax gross-up with respect to such imputed income. For a discussion of the valuation of perquisites, see Compensation Discussion and Analysis - Other Compensation Program Elements.
- (5) The amount shown in this column for Mr. Record includes Company contributions or allocations to Mr. Record's account in the Savings Plans and Mirror Savings Plan for fiscal 2016 of \$12,787 and \$54,402, respectively.
- (6) The amount shown in this column for Ms. West includes Company contributions or allocations to Ms. West's account in the Savings Plans for fiscal 2016 of \$1,502. In addition, the amount includes the value of relocation

benefits received by

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**Summary Compensation Table**

Ms. West during fiscal 2016 in the amount of \$72,265. For a discussion of the valuation of perquisites, see Compensation Discussion and Analysis - Other Compensation Program Elements.

- (7) The change in value for Mr. Tighe in fiscal 2016 was \$304,970 for the Pension Plan and the Benefit Restoration Plan.
- (8) The amount shown in this column for Mr. Tighe includes Company contributions or allocations to Mr. Tighe's account in the Mirror Savings Plan for fiscal 2016 of \$31,070.
- (9) The amount shown in this column for Mr. McFarland includes the value of the following perquisites received by Mr. McFarland during fiscal 2016: relocation, \$47,213; and personal use of corporate aircraft, \$9,479. For a discussion of the valuation of perquisites, see Compensation Discussion and Analysis - Other Compensation Program Elements.
- (10) Includes a \$500,000 individual performance award granted under the MICP in addition to a payout of \$635,355 from the Spring performance period under the MICP.
- (11) The change in value for Mr. Ullman in fiscal 2016 was \$(648,954) for the Benefit Restoration Plan.
- (12) The amount shown in this column for Mr. Ullman includes Company contributions or allocations to Mr. Ullman's account in the Savings Plans and Mirror Savings Plan for fiscal 2016 of \$9,500 and \$200,719, respectively. In addition, the amount shown reflects Company matching charitable contributions in the amount of \$10,000 on behalf of Mr. Ullman under the Directors' Matching Fund in fiscal 2016, a payment of \$648,954 made under the Benefit Restoration Plan and \$115,385 for accrued but unpaid vacation. The amount further includes \$253,731 for personal use of corporate aircraft. For security purposes, the Executive Chairman participated in a Key Associate Protection Program, which requires that he use Company aircraft for all business and personal travel. Income is imputed for personal use of Company aircraft. The Company does not provide a tax gross-up with respect to such imputed income. For a discussion of the valuation of perquisites, see Compensation Discussion and Analysis - Other Compensation Program Elements.

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**Table of Contents****Grants of Plan-Based Awards****GRANTS OF PLAN-BASED AWARDS FOR FISCAL 2016**

	Grant Date <sup>(1)</sup>	Date of Committee Approval	Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards <sup>(2)</sup>			All Other Stock Awards: Number of Shares of Stock or Units <sup>(3)</sup>	All Other Option Awards: Number of Securities or Options <sup>(4)</sup>	Exercise Price of Base Awards (\$/share)	Date of Award	Value of Award (\$)
			Thres-hold (\$)	Target (\$)	Maximum (\$)	Thres-hold (#)	Target (#)	Maximum (#)					
R.	3/3/2016	2/29/2016				80,719	322,878	645,756				3,49	
an	3/3/2016	2/29/2016								350,000	10.84	1,73	
	3/3/2016	2/29/2016							161,439			1,74	
and	N/A <sup>(6)</sup>		253,750	1,015,000	2,030,000								
ive	N/A <sup>(7)</sup>		380,625	1,522,500	3,045,000								
J.	3/3/2016	2/29/2016				17,297	69,188	138,376				74	
ive	3/3/2016	2/29/2016								75,000	10.84	37	
	3/3/2016	2/29/2016							34,594			37	
nt	N/A <sup>(6)</sup>		61,800	247,200	494,400								
ief	N/A <sup>(7)</sup>		92,700	370,800	741,600								
al													
eth	3/3/2016	2/29/2016				17,297	69,188	138,376				74	
ive	3/3/2016	2/29/2016								75,000	10.84	37	
	3/3/2016	2/29/2016							34,594			37	
nt,	N/A <sup>(6)</sup>		54,075	216,300	432,600								
er	N/A <sup>(7)</sup>		81,113	324,450	648,900								
ing													
	3/3/2016	2/29/2016				11,531	46,125	92,250				49	
	3/3/2016	2/29/2016								50,000	10.84	23	

ive	3/3/2016	2/29/2016					23,063			23
	N/A <sup>(6)</sup>		52,500	210,000	420,000					
nt,	N/A <sup>(7)</sup>		78,750	315,000	630,000					
nt										
M.										
and	3/3/2016	2/29/2016				11,531	46,125	92,250		49
ive	3/3/2016	2/29/2016							50,000	10.84
	3/3/2016	2/29/2016						23,063		23
nt,	N/A <sup>(6)</sup>		48,750	195,000	390,000					
	N/A <sup>(7)</sup>		73,125	292,500	585,000					
E.										
, III	N/A <sup>(6)</sup>		262,500	1,050,000	2,100,000					
	N/A <sup>(8)</sup>			500,000						
ive										
an										

- (1) The Committee has adopted a policy regarding the grant date for annual grants of equity awards to associates. The policy states that the grant date for annual grants of equity awards to associates shall be the third full trading date following approval of the grant by the Committee.
- (2) Grants of performance-based restricted stock units under the Company's 2014 Long-Term Incentive Plan.
- (3) Grants of time-based restricted stock units under the Company's 2014 Long-Term Incentive Plan.
- (4) Grants of stock options under the Company's 2014 Long-Term Incentive Plan.
- (5) The grant date value is calculated in accordance with applicable FASB guidance.
- (6) Grant of award for the Spring performance period under the MICP.
- (7) Grant of award for the Fall performance period under the MICP.
- (8) Grant of individual performance award under the MICP.

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## Outstanding Equity Awards at Fiscal Year-End

## OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END 2016

Name	Option Awards					Stock Awards			Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$) <sup>(1)</sup>
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Non-Exercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unearned Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$) <sup>(1)</sup>	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	
Marvin R. Ellison Chairman of the Board and Chief Executive Officer									
2014	0	0	0	N/A	N/A	688,706 <sup>(2)</sup>	4,442,154	0	0
2015	159,801	319,602 <sup>(3)</sup>	0	7.77	3/18/2025	691,215 <sup>(4)</sup>	4,458,337	144,788 <sup>(5)</sup>	933,883
2016	0	350,000 <sup>(6)</sup>	0	10.84	3/2/2026	161,439 <sup>(7)</sup>	1,041,282	80,719 <sup>(8)</sup>	520,638
Edward J. Record Vice President and Chief Financial Officer									
2014	0	0	184,729 <sup>(9)</sup>	8.97	3/27/2024	158,267 <sup>(10)</sup>	1,020,822	0	0
2015	35,511	71,023 <sup>(11)</sup>	0	7.77	3/18/2025	189,640 <sup>(12)</sup>	1,223,178	32,175 <sup>(5)</sup>	207,529

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2016	0	75,000 <sup>(6)</sup>	0	10.84	3/2/2026	34,594 <sup>(7)</sup>	223,131	17,297 <sup>(8)</sup>	111,566
Mary Beth West Executive Vice President, Chief Customer and Marketing Officer									
2015	41,062	82,126 <sup>(13)</sup>	0	8.64	6/3/2025	156,554 <sup>(14)</sup>	1,009,773	32,794 <sup>(15)</sup>	211,521
2016	0	75,000 <sup>(6)</sup>	0	10.84	3/2/2026	34,594 <sup>(7)</sup>	223,131	17,297 <sup>(8)</sup>	111,566
John J. Tighe Executive Vice President, Chief Merchant									
2007	3,042	0	0	78.50	3/13/2017	0	0	0	0
2008	4,721	0	0	39.78	3/11/2018	0	0	0	0
2010	9,218	0	0	30.72	3/15/2020	0	0	0	0
2011	14,474	0	0	36.58	3/14/2021	0	0	0	0
2012	14,127	0	0	37.63	3/12/2022	0	0	0	0
2013	23,338	0	0	14.43	4/2/2023	0	0	0	0
2014	0	0	45,455 <sup>(16)</sup>	8.36	3/20/2024	110,176 <sup>(17)</sup>	710,635	0	0
2015	10,653	21,307 <sup>(18)</sup>	0	7.77	3/18/2025	97,154 <sup>(19)</sup>	626,643	9,653 <sup>(5)</sup>	62,262
2015	0	122,549 <sup>(20)</sup>	0	9.79	10/5/2025	0	0	0	0
2016	0	50,000 <sup>(6)</sup>	0	10.84	3/2/2026	23,063 <sup>(7)</sup>	148,756	11,531 <sup>(8)</sup>	74,375
Joseph M. McFarland Executive Vice President, Stores									
2015	0	166,113 <sup>(21)</sup>	0	6.56	1/20/2026	76,220 <sup>(22)</sup>	491,619	0	0
2016	0	50,000 <sup>(6)</sup>	0	10.84	3/2/2026	23,063 <sup>(7)</sup>	148,756	11,531 <sup>(8)</sup>	74,375
Myron E. Ullman, III Retired Executive Chairman									
2014	0	0	770,308 <sup>(23)</sup>	8.36	3/20/2024	0	0	0	0
2015	948,276	0	0	7.77	8/1/2021	0	0	0	0

(1) Based on the closing market price of Company common stock on January 27, 2017, which was \$6.45.

(2) Restricted stock units that vest on November 17, 2017.

(3) Stock options that vest one-half on March 19, 2017 and March 19, 2018.

- (4) Restricted stock units that vest on March 19, 2018.
- (5) Performance-based restricted stock units that vest on March 19, 2018 if the performance measure is achieved. The reported number of shares assumes achievement of the target level of performance, in accordance with SEC requirements. The number of units earned can increase or decrease based on the Company's achievement of the performance measure.
- (6) Stock options that vest one-third on March 3, 2017, March 3, 2018 and March 3, 2019.
- (7) Restricted stock units that vest on March 3, 2019.



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**Outstanding Equity Awards at Fiscal Year-End**

- (8) Performance-based restricted stock units that vest on March 3, 2019 if the performance measure is achieved. The reported number of shares assumes achievement of the threshold level of performance, in accordance with SEC requirements. The number of units earned can increase or decrease based on the Company's achievement of the performance measure.
- (9) Performance-contingent stock options that vest as follows: (i) if the performance measure is achieved on or before March 27, 2017, the options vest on March 27, 2017; and (ii) if the performance measure is achieved after March 27, 2017 and on or before March 27, 2018, the options vest upon achievement of the performance measure.
- (10) 74,655 restricted stock units vest on May 20, 2017 and 83,612 restricted stock units vest on March 27, 2017.
- (11) 35,511 stock options vest on March 19, 2017 and 35,512 stock options vest on March 19, 2018.
- (12) 153,604 restricted stock units vest on March 19, 2018 and 36,036 restricted stock units vest one-half on March 19, 2017 and March 19, 2018.
- (13) Stock options that vest one-half on June 4, 2017 and June 4, 2018.
- (14) Restricted stock units that vest on June 4, 2018.
- (15) Performance-based restricted stock units that vest on June 4, 2018 if the performance measure is achieved. The reported number of shares assumes achievement of the target level of performance, in accordance with SEC requirements. The number of units earned can increase or decrease based on the Company's achievement of the performance measure.
- (16) Performance-contingent stock options that vest as follows: (i) if the performance measure is achieved on or before March 20, 2017, the options vest on March 20, 2017; and (ii) if the performance measure is achieved after March 20, 2017 and on or before March 20, 2018, the options vest upon achievement of the performance measure.
- (17) 20,933 restricted stock units vest on March 20, 2017; 34,146 restricted stock units vest on August 19, 2017; and 55,097 restricted stock units vest on November 17, 2017.
- (18) 10,653 stock options vest on March 19, 2017 and 10,654 stock options vest on March 19, 2018.
- (19) 46,081 restricted stock units vest on March 19, 2018 and 51,073 restricted stock units vest on October 6, 2019.
- (20) Stock options that vest on October 6, 2019.
- (21) Stock options that vest on January 21, 2020.
- (22) Restricted stock units that vest on January 21, 2020.
- (23) Performance-contingent stock options that vest upon achievement of the performance measure.

**Table of Contents****Option Exercises and Stock Vested****OPTION EXERCISES AND STOCK VESTED FOR FISCAL 2016**

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)
Marvin R. Ellison Chairman of the Board and Chief Executive Officer	0	0	688,705 <sup>(1)</sup>	6,494,488 <sup>(2)</sup>
Edward J. Record Executive Vice President and Chief Financial Officer	0	0	18,018 <sup>(3)</sup> 74,655 <sup>(5)</sup>	208,468 <sup>(4)</sup> 577,830 <sup>(6)</sup>
Mary Beth West Executive Vice President, Chief Customer and Marketing Officer	0	0	0	0
John J. Tighe Executive Vice President, Chief Merchant	0	0	55,096 <sup>(1)</sup>	519,555 <sup>(2)</sup>
Joseph M. McFarland Executive Vice President, Stores	0	0	0	0
Myron E. Ullman, III Retired Executive Chairman	0	0	763,063 <sup>(7)</sup>	8,828,639 <sup>(4)</sup>

(1) Represents portion of 2014 time-based restricted stock unit award that vested on November 17, 2016.

(2) Based on the closing market price of JCPenney common stock on November 17, 2016, which was \$9.43.

(3) Represents portion of 2015 time-based restricted stock unit award that vested on March 19, 2016.

(4) Based on the closing market price of JCPenney common stock on March 18, 2016, which was \$11.57.

(5) Represents portion of 2014 time-based restricted stock unit award that vested on May 20, 2016.

(6) Based on the closing market price of JCPenney common stock on May 20, 2016, which was \$7.74.

(7) Represents 2015 performance-based restricted stock unit award that vested on March 19, 2016.



**Table of Contents****Pension Benefits****PENSION BENEFITS**

<b>Name</b>	<b>Plan Name</b>	<b>Number of Years Credited Service (#)<sup>(1)</sup></b>	<b>Present Value of Accumulated Benefit (\$)<sup>(2)</sup></b>	<b>Payments During Last Fiscal Year (\$)</b>
Marvin R. Ellison Chairman of the Board and Chief Executive Officer	N/A			
Edward J. Record Executive Vice President and Chief Financial Officer	N/A			
Mary Beth West Executive Vice President, Chief Customer and Marketing Officer	N/A			
John J. Tighe* Executive Vice President, Chief Merchant	Pension Plan	13.33	238,146	0
	Benefit Restoration Plan	13.33	520,290	0
Joseph M. McFarland Executive Vice President, Stores	N/A			
Myron E. Ullman, III Retired Executive Chairman	Benefit Restoration Plan	6.083	0	648,954

\* Mr. Tighe is the only current named executive officer participating in the Pension Plan or Benefit Restoration Plan.

- (1) The number of years of credited service shown in the table is used to calculate the present value of the accumulated benefit. The number of years for Mr. Ullman reflects his retirement date of January 27, 2012.
- (2) The lump sum present value of the accumulated benefit was computed based on the January 31, 2017 measurement date used in the Company's financial statements for the fiscal year ended January 28, 2017. The assumptions used in calculating the accumulated benefit obligation are also derived from these financial statements and are incorporated herein by reference. All amounts included in this column are projected amounts based on the earliest date that the named executive officer could receive an unreduced benefit from the applicable plan. Amounts are calculated based on actual service and compensation as of the January 31, 2017 measurement date. Amounts for the BRP are based on the present value of the five year annual installment option. Amounts for the Pension Plan are based on the present value of the annuity options available under the plan.

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**Pension Benefits**

Pension Plan. The Pension Plan is a tax qualified defined benefit plan intended to provide retirement income to all eligible associates. To be eligible to participate in the Pension Plan, an associate must:

have been hired or rehired before January 1, 2007,  
be employed at least one year,  
have 1,000 hours of service, and  
be at least age 21.

To be vested in a Pension Plan benefit, a participant must be employed for at least five years or attain age 65. Mr. Tighe is the only named executive officer who participates in the Pension Plan and is fully vested in his benefits under the Pension Plan.

The normal retirement age under the Pension Plan is age 65. The normal retirement benefit formula in the Pension Plan is equal to:

the average of the participant's highest five consecutive full calendar years of pay (including salary and incentive compensation actually paid during that year), out of the last ten years of service (average final pay) times 0.75%, plus  
0.50% of the participant's average final pay that exceeds the average of the Social Security taxable wage bases in effect for each calendar year during the 35 year period ending on December 31 of the year an associate reaches the Social Security retirement age, multiplied by  
the participant's years of credited service up to 35 years.

Once a participant has at least 25 years of credited service, he or she is eligible for an additional Pension Plan retirement benefit. This additional benefit is equal to 0.25% of his or her average final pay times his or her years of credited service exceeding 25 years, up to a maximum of 10 years.

The above formula computes a benefit intended to be payable for the participant's life. The primary form of benefit for a single participant is a single life annuity and for a married participant is a 50% qualified joint and survivor annuity. Other annuity benefit payment options are also available. A single life annuity provides a greater annual benefit amount paid over a shorter period of time than a 50% qualified joint and survivor annuity. All benefit payment option forms are actuarially equivalent. The Pension Plan permits participants to elect to receive a lump sum distribution of their entire benefit on termination of employment, and will automatically distribute a terminated participant's benefit if the participant's monthly benefit amount is \$100 or less or the present value of the participant's benefit is \$5,000 or less.

The Pension Plan includes an early retirement benefit for which a participant becomes eligible upon attaining age 55 and completing at least 15 years of service. The Pension Plan early retirement benefit is the normal retirement benefit computed above reduced by:

0.3333% for each month between the ages of 65 and 60; and  
0.4176% for each month between the ages of 60 and 55,  
that the participant begins to receive the early retirement benefit.

*Benefit Restoration Plan.* The BRP is a non-qualified excess defined benefit plan that provides retirement income to eligible associates whose Pension Plan benefit is limited by Code limits on compensation (\$265,000 for 2016 and \$270,000 for 2017) or maximum annual benefits (\$210,000 for 2016 and \$215,000 for 2017).

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**Pension Benefits**

The BRP uses the same eligibility, years of credited service, formula, early retirement reductions and retirement age criteria found in the Pension Plan, but without considering the Code imposed limits on a benefit payable under the Pension Plan. The excess benefit over the Code imposed limits in the Pension Plan is paid from the BRP. Mr. Tighe is the only named executive officer who participates in the BRP and is fully vested in his benefits under the BRP.

The formula computes an age 65 benefit with payments beginning, for the named executive officers, six months after separation from service. The only form of benefit under the BRP is a five year annual installment option, which is not available under the Pension Plan. The five year installment option produces a higher annual payment than a single life annuity or a qualified joint and survivor annuity, but is actuarially equivalent to such payment forms.

If employment terminates for cause, all BRP benefits are forfeited.



**Table of Contents****Nonqualified Deferred Compensation****NONQUALIFIED DEFERRED COMPENSATION FOR FISCAL 2016**

Name	Executive Contributions in last FY (\$) <sup>(1)</sup>	Registrant Contributions in last FY (\$)	Aggregate Earnings in last FY (\$) <sup>(2)</sup>	Aggregate Withdrawals/Distributions (\$)	Aggregate Balance at last FYE (\$) <sup>(3)</sup>
Marvin R. Ellison	0	0	0	0	0
Edward J. Record	94,627	54,402	53,653	0	367,383
Mary Beth West	0	0	0	0	0
John J. Tighe	75,874	31,070	67,285	0	442,162
Joseph M. McFarland	0	0	0	0	0
Myron E. Ullman, III	324,367	200,719	(244,720)	(15,328)	624,757

- (1) The amounts shown are included in the salary and incentive compensation numbers shown in the Summary Compensation Table.
- (2) These amounts are not included in the Summary Compensation Table since they do not constitute above market interest or preferential earnings.
- (3) The balance reported includes named executive officer contributions to the Mirror Savings Plan; these amounts were included in the Summary Compensation Table as salary and incentive compensation in the fiscal year earned. Company contributions to the Mirror Savings Plan for fiscal 2016 were included in the All Other Compensation column of the Summary Compensation Table.

**Mirror Savings Plan.** The Mirror Savings Plan is a non-qualified defined contribution plan which provides eligible associates the opportunity to defer a portion of their base salary and incentive compensation exceeding the compensation limit as a means of saving for retirement.

Accordingly, eligible associates earning more than the compensation limit may defer compensation through the Mirror Savings Plan as follows:

Associates participating in the Pension Plan may defer up to 14% of their salary and annual incentive compensation below the Code compensation limit (\$265,000 for 2016 and \$270,000 for 2017) and up to 75% of their compensation above the Code compensation limit; Prior to January 1, 2017, associates not participating in the Pension Plan could defer up to 14% of their salary and annual incentive compensation below the Code compensation limit (\$265,000 for 2016 and \$270,000 for 2017) and up to 75% of their compensation above the Code compensation limit; and Beginning January 1, 2017, eligible associates not participating in the Pension Plan may only defer up to 75% of their compensation above the Code compensation limit (\$270,000 for 2017).

The Mirror Savings Plan includes a Company match feature as follows:

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For 2016, the Company match was \$0.50 per dollar deferred up to a maximum of 6% of deferrals on compensation over \$265,000;

For 2017, for associates participating in the Pension Plan, the Company match is \$0.50 per dollar deferred up to a maximum of 6% of deferrals on compensation over \$270,000; and

For 2017, for associates not participating in the Pension Plan, the Company match is 100% per dollar deferred up to a maximum of 5% of deferrals on compensation over \$270,000.

This matching contribution is credited each pay period. The Company may make additional discretionary matching contributions.

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**Nonqualified Deferred Compensation**

Participants vest in the Mirror Savings Plan Company matching contribution and related investment earnings as follows:

For associates participating in the Pension Plan, for contributions made for plan years 2007 and after, participants become 100% vested in the match after three years of service;

For associates not participating in the Pension Plan, for contributions made for plan years 2007 through 2016, participants become 100% vested in the match after three years of service; and

For associates not participating in the Pension Plan, for contributions made for plans years 2017 and after, participants are 100% vested in the match immediately.

Generally, all unvested Company matching contributions are forfeited when the participant terminates employment. The Mirror Savings Plan provides that all matching contributions are immediately vested and non-forfeitable if a participant terminates employment due to:

Retirement at age 65,

Qualifying for permanent and total disability while working for the Company,

The work unit or type of work the associate was doing being discontinued (as determined by the Company), or

Death.

Deferrals and Company matching contributions are credited to the participant's Mirror Savings Plan account and invested according to the participant's investment elections. Earnings on the balance in the participant's Mirror Savings Plan accounts are based on hypothetical investments in the same funds offered under the Savings Plans. Participants can change their investment elections daily.

Generally, a Mirror Savings Plan participant can only receive a distribution following an unforeseen emergency event (as defined under the Code), a change in control, or termination of employment. The only form of payment under the Mirror Savings Plan is a five year annual installment option. As a result of Mr. Ullman's retirement from the Company on January 27, 2012, he received distributions from the Mirror Savings Plan. His final annual installment was paid in 2016. No withdrawals or distributions were taken during the year by any of the named executive officers.

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**Potential Payments and Benefits on Termination of Employment**

**POTENTIAL PAYMENTS AND BENEFITS ON TERMINATION OF EMPLOYMENT**

Under our compensation program, described above in Compensation Discussion and Analysis, payments and the provision of benefits can be triggered by the termination of an associate's employment. These payments and benefits may vary depending on the reason for termination as described below.

Except as described below, in the event of an associate's voluntary termination or the termination of an associate's employment for cause, the associate is only entitled to receive payments for accrued base salary and vacation through the date of termination and any amounts payable under the terms of the Mirror Savings Plan regardless of whether or not the termination follows a change in control of the Company.

In the event that an associate's termination is the result of retirement, death or permanent disability, the associate is entitled to additional payments and benefits, regardless of whether or not the termination follows a change in control of the Company.

In the event that an associate is involuntarily terminated without cause, the associate is entitled to additional payments and benefits, which may vary depending on whether or not the termination follows a change in control of the Company. If an associate terminates employment with good reason following a change in control of the Company or, in the case of Mr. Ellison, if he voluntarily terminates employment with good reason at any time, the associate is also entitled to additional payments and benefits.

In order to describe the payments and benefits that are triggered for each termination event for each of the Company's named executive officers, we have created a table estimating the payments and benefits that would be paid to each of our named executive officers under each element of our compensation program. The table assumes that the named executive officer's employment terminated on January 27, 2017, which is the last business day of the Company's last completed fiscal year. The table can be found on page 61.

***Termination without a Change in Control***

In an effort to attract the best people, the Company offers each of its senior executive officers the right to enter into an Executive Termination Pay Agreement (Termination Pay Agreement) with the Company. The form of the agreement was approved by the Committee and reviewed by its independent consultant. The Termination Pay Agreement is intended to provide the executive with severance benefits in exchange for the executive's agreement to comply with certain restrictive covenants. The benefits payable under these agreements are not available if the executive receives the benefits under either of the CIC Plans, which are described later in this section.

The primary purpose of the Termination Pay Agreement is to provide for severance benefits in the event of involuntary termination of the executive's employment without cause. For purposes of the Termination Pay Agreement, cause includes:

- An intentional act of fraud, embezzlement, theft or other material violation of law;
- Intentional damage to the Company's assets;

Intentional disclosure of confidential information in violation of the Company's policies;  
Material breach of the executive's obligations under the Termination Pay Agreement;  
Breach of the executive's duty of loyalty to the Company;

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**Table of Contents****Potential Payments and Benefits on Termination of Employment**

Failure of the executive to substantially perform the duties of his or her job (other than as a result of physical or mental incapacity); or

Intentional breach of Company policies or willful misconduct by the executive that is in either case materially injurious to the Company.

Under the Termination Pay Agreement, if an executive is involuntarily terminated without cause or, in the case of Mr. Ellison, voluntarily terminates employment for good reason, he or she will receive the benefits set forth in the table immediately below. The standard form of Termination Pay Agreement was revised in December 2013 and again in December 2015. The table below sets forth the benefits to be received by an executive based on the form of Termination Pay Agreement to which he or she is a party.

<b>Benefits</b>	<b>Form of Termination Pay Agreement prior to December 2013</b>	<b>Form of Termination Pay Agreement from December 2013 to December 2015</b>	<b>Form of Termination Pay Agreement after December 2015</b>
Lump sum payment for unpaid salary and vacation	Accrued base salary and earned but unused paid time off through termination date	Same	Same
Payment for base salary and annual cash incentive*	Lump sum equal to annualized base salary plus target annual cash incentive compensation (at 100% of the target incentive opportunity in effect at the time of termination) with respect to a period of (a) 24 months for Mr. Ellison, (b) 18 months following termination if the executive is an Executive Vice President or higher, or (c) 12 months following termination if the executive is a Senior Vice President	Same	Equal monthly installments during the severance period
Lump sum payment for current year annual cash incentive*	Prorated annual cash incentive compensation for the fiscal year of termination at 100% of target incentive	Average of actual incentive compensation payments for the 3 prior fiscal years pro-rated for the period of service during the fiscal	Executive's actual annual cash incentive compensation payable for the fiscal year of termination prorated for the

	opportunity at the time of termination	year or, if termination on the last day of the fiscal year, the actual annual cash incentive compensation, if greater	period of service during the fiscal year
Payment of insurance premiums*	Lump sum payment for Company-paid portion of premiums toward medical, dental and life insurance coverages for 24 months for Mr. Ellison, 18 months for Executive Vice Presidents and 12 months for Senior Vice Presidents, grossed-up for federal income taxes	Same	Continuation of payments by Company for its portion of premiums for medical and dental insurance coverage if executive elects continuation coverage under the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended (COBRA)

**Table of Contents****Potential Payments and Benefits on Termination of Employment**

<b>Benefits</b>	<b>Form of Termination Pay Agreement prior to December 2013</b>	<b>Form of Termination Pay Agreement from December 2013 to December 2015</b>	<b>Form of Termination Pay Agreement after December 2015</b>
Lump sum payment for outplacement and financial counseling services*	\$25,000 for CEO and Executive Vice Presidents; \$15,000 for Senior Vice Presidents	Same	Same
Vesting of equity awards granted in connection with commencement of employment*	Immediate vesting	Same	Same
Vesting of other equity awards*	Immediate vesting	Immediate vesting of pro-rated portion reflecting length of employment	Same

\* Conditioned on execution of a release and expiration of the revocation period under the release, but payable no later than two and one-half months after the year of termination.

As noted above, Mr. Ellison's Termination Pay Agreement also provides the above-described benefits if he voluntarily terminates employment with the Company for good reason. For purposes of Mr. Ellison's Termination Pay Agreement, good reason consists of:

- A reduction in base salary or target annual cash incentive opportunity;
- Involuntary relocation of more than 50 miles;
- A materially adverse change in the executive's duties or responsibilities;
- The Company's failure to nominate Mr. Ellison for election to the Board; or
- Failure to make any material payments when due.

For Mr. Ellison to receive benefits under his Termination Pay Agreement in connection with a termination for good reason, he must terminate employment within 180 days of the date the good reason event occurred. Notice of a good reason event must be provided to the Company within 30 days of the event and the Company must be given a 30-day opportunity to correct the situation.

In addition to providing severance payments in the event of an involuntary termination without cause, the Termination Pay Agreement also includes certain limited benefits in the event of death or termination due to permanent disability. In such case, the executive will receive a lump sum cash payment as soon as practicable after termination equal to prorated annual incentive compensation for service during the year at 100% of the executive's target incentive compensation opportunity.



By entering into a Termination Pay Agreement, the executive agrees to the following restrictive covenants:

Obligation not to disclose confidential or proprietary information of the Company, which continues indefinitely following termination of employment;

Obligation to refrain from activities designed to influence or persuade any person not to do business or to reduce its business with the Company, which continues for the applicable severance period following termination of employment;

Obligation to refrain from attempting to influence or persuade any of the Company's employees to leave their employment with the Company and to refrain from directly or indirectly soliciting or hiring employees of the Company, which continues for the applicable severance period following termination of employment; and

Obligation not to undertake work for a competing business, which continues for the applicable severance period following termination of employment.

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**Potential Payments and Benefits on Termination of Employment**

The standard forms of Termination Pay Agreements used by the Company prior to December 2015 provided that the noncompetition covenant may be waived by the executive; however, he or she must then forego any severance benefits available under the Termination Pay Agreement. Beginning with the form of Termination Pay Agreements as revised in December 2015, the restrictive covenants also extend to a voluntary termination of employment in addition to involuntary separation without cause. In the event the executive breaches any of the covenants listed above, the Company will not be obligated to make any further payments under the agreement and may seek to recover damages from the executive.

Mr. Tighe has a Termination Pay Agreement in the form used by the Company prior to December 2013. Ms. West and Mr. Record have Termination Pay Agreements as revised in December 2013. Mr. McFarland has a Termination Pay Agreement as revised in December 2015. Mr. Ellison is also party to a separate Termination Pay Agreement that provides the benefits described in the table above for Termination Pay Agreements as revised in December 2013. Mr. Ullman was not a party to a Termination Pay Agreement and therefore did not receive a severance payment from the Company in 2016.

***Change in Control; Termination Following a Change in Control***

The Company's executive officers participate in the change in control plan in effect on the date upon which they became eligible for benefits under the change in control plan. All of our named executive officers, other than Mr. Tighe, participate in the 2011 CIC Plan. Mr. Tighe participates in the 2009 CIC Plan, which is substantially similar to the 2011 CIC Plan except as noted below. None of our named executive officers are entitled to a tax gross-up payment in respect of any excise taxes imposed on the benefits payable under their respective plan.

Each of the CIC Plans provides benefits to the Company's executives if their employment is terminated as a result of an involuntary separation from service by the Company other than for cause within two years of the occurrence of a change in control of the Company. Each of the CIC Plans also provides benefits to an executive if the executive terminates employment with the Company for Good Reason following a change of control. Good Reason consists of:

- A material reduction in the executive's base salary or target annual cash incentive opportunity;
- Involuntary relocation of more than 50 miles;
- A materially adverse change in the executive's duties or responsibilities;
- A material diminution in the budget over which the executive has responsibility;
- A material adverse change in the executive's supervisor's duties or responsibilities, including a change in the supervisor to whom the executive is required to report; or
- Failure of the Company to continue a material benefit or a material reduction in the benefits in which the executive participated prior to the occurrence of the change in control, unless replaced by a substantially equivalent benefit.

For an executive to receive benefits under either of the CIC Plans, a Good Reason event with respect to such executive must occur within two years of the occurrence of a change in control of the Company, and if the Good Reason event is not cured by the Company following timely notice of the event by the executive:

under the 2009 CIC Plan, the executive must terminate employment within two years of the date the Good Reason event occurred; or

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**Potential Payments and Benefits on Termination of Employment**

under the 2011 CIC Plan, the executive must terminate employment within the later of (i) two years of the change in control or (ii) 180 days of the date the Good Reason event occurred.

Notice of a Good Reason event must be provided to the Company within 90 days of the event and the Company must be given a 30-day opportunity to correct the situation without having to pay benefits under each of the CIC Plans.

Change in control is defined in the 2011 CIC Plan as:

the acquisition by any person, entity or group of 30% or more of the Company's outstanding common stock;  
the replacement of a majority of the Board;  
a reorganization, merger or consolidation, or the sale of all or substantially all of the Company's assets, subject to certain exceptions; or  
a complete liquidation or dissolution of the Company.

The 2009 CIC Plan uses the same change in control definition except that the acquisition by any person, entity or group of 20% or more of the Company's outstanding common stock would constitute a change in control.

For purposes of each of the CIC Plans, cause includes the failure of the executive to substantially perform the duties of his or her job, failure of the executive to follow Company policy, engagement by the executive in illegal conduct, or gross misconduct injurious to the Company.

For the named executive officers, the 2011 CIC Plan entitles them to receive cash severance of 2.99 times annualized base salary plus target annual cash incentive opportunity (at 100%) at the time of termination. The 2009 CIC Plan entitles Mr. Tighe to the same benefit.

In addition to the cash severance payments, all participants in the CIC Plans are entitled to receive the following at the time of termination:

Accrued base salary and pay in respect of earned but unused paid time off through the date of termination;

With respect to annual incentive compensation:

under the 2009 CIC Plan, the participant's prorated target annual cash incentive compensation for the year of termination (at 100% of the target incentive opportunity at the time of termination);

under the 2011 CIC Plan, the average of the participant's actual annual incentive compensation payments under the MICP for the three fiscal years prior to the fiscal year of termination; or

if termination occurs on the last day of the fiscal year, the actual annual cash incentive compensation, if greater;

A lump sum payment in respect of additional paid time off, if any, under the Company's paid time off policies;

A lump sum payment representing the incremental value of additional years of age and service credited to the executive (equal to the executive's cash severance multiple) with respect to the BRP and Mirror Savings Plan, to the extent the executive participates in either of these plans;



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**Potential Payments and Benefits on Termination of Employment**

A lump sum payment representing the Company-financed portion of the premium toward medical, dental and life insurance coverages for the number of years equal to the applicable cash severance multiple for the executive, grossed-up for federal income taxes; and

A lump sum payment of \$25,000 toward outplacement and financial counseling services, and, to the extent applicable and allowable by law, reimbursement of legal fees and expenses incurred in defense of the executive's rights under the plan.

Additionally, participants in the CIC Plans are eligible for up to one year of additional age and service credit for purposes of determining retiree eligibility under the Company's medical, dental, life insurance, long term care insurance, and lifetime discount programs.

In addition to the benefits provided by the CIC Plans, some of the Company's other plans and programs, such as the Company's equity compensation plans, also include specific benefits payable to associates in the event of a change in control of the Company. The Company's 2012 Long-Term Incentive Plan, 2014 Long-Term Incentive Plan and 2016 Long-Term Incentive Plan provide that vesting of outstanding equity awards is accelerated if the participant's employment is terminated as a result of an involuntary separation from service by the Company other than for Cause within two years of the occurrence of a change in control of the Company.

For purposes of these plans, a change of control is defined as:

the acquisition by a person or group of more than 50% of the total voting power of the Company's common stock;

the acquisition by a person or a group within a twelve-month period of 30% of the total voting power of the Company's common stock or the replacement of a majority of the Board within a twelve-month period unless approved by a majority of the Board; or

the acquisition by a person or group of 40% or more of the assets of the Company.

The plans also provide for vesting acceleration of outstanding awards if the participant terminates employment with the Company for Good Reason within two years of the occurrence of a change in control of the Company. The definition of Good Reason under these plans is the same as the definition under the 2011 CIC Plan.

**Table of Contents****Potential Payments and Benefits on Termination of Employment**

	<b>Base Salary (\$)</b>	<b>Annual Cash Incentive (\$)</b>	<b>Restricted Stock (\$)</b>	<b>Pension and Benefit Restor- ation Plans (\$)</b>	<b>Mirror Savings Plan (\$)</b>	<b>Other (\$)<sup>(1)</sup></b>	<b>Excise Tax (Cutback) (\$)</b>	<b>Total (\$)</b>
<b>Marvin R. Ellison</b>								
Involuntary Termination without Change in Control	2,900,000	7,168,416	8,774,583	0	0	271,690	0	19,114,689
Involuntary Termination with Change in Control	4,335,500	9,680,541	11,575,455	0	0	297,181	0	25,888,677
Death	0	2,093,416	8,774,583	0	0	195,192	0	11,063,191
Permanent Disability	0	2,093,416	8,774,583	0	0	195,192	0	11,063,191
Good Reason without Change in Control	2,900,000	7,168,416	8,774,583	0	0	271,690	0	19,114,689
Good Reason After Change in Control	4,335,500	9,680,541	11,575,455	0	0	297,181	0	25,888,677
<b>Edward J. Record</b>								
Involuntary Termination without Change in Control	1,236,000	1,518,234	2,043,584	0	367,383	80,797	0	5,245,998
Involuntary Termination with Change in Control	2,463,760	2,439,054	2,813,642	0	367,383	117,334	0	8,201,173
Death	0	591,234	2,043,584	0	367,383	19,015	0	3,021,216
Permanent Disability	0	591,234	2,043,584	0	367,383	19,015	0	3,021,216
Good Reason After Change in Control	2,463,760	2,439,054	2,813,642	0	367,383	117,334	0	8,201,173
<b>Mary Beth West</b>								
Involuntary Termination	1,081,500	1,394,506	1,191,001	0	0	158,568	0	3,825,575

without Change in Control									
Involuntary Termination with Change in Control	2,155,790	2,200,223	1,524,628	0	0	194,835	0	6,075,476	
Death	0	583,381	891,352	0	0	97,058	0	1,571,791	
Permanent Disability	0	583,381	891,352	0	0	97,058	0	1,571,791	
Good Reason After Change in Control	2,155,790	2,200,223	1,524,628	0	0	194,835	0	6,075,476	
<b>John J. Tighe</b>									
Involuntary Termination without Change in Control	1,050,000	1,312,500	1,826,257	708,841	470,812	168,316	0	5,536,726	
Involuntary Termination with Change in Control	2,093,000	2,094,750	1,753,620	708,841	470,812	200,793	0	7,321,816	
Death	0	525,000	920,770	413,149	470,812	110,621	0	2,440,352	
Permanent Disability	0	525,000	920,770	1,073,949	470,812	110,621	0	3,101,152	
Good Reason After Change in Control	2,093,000	2,094,750	1,753,620	708,841	470,812	200,793	0	7,321,816	
<b>Joseph M. McFarland</b>									
Involuntary Termination without Change in Control	975,000	849,245	615,581	0	0	99,600	0	2,539,426	
Involuntary Termination with Change in Control	1,943,500	1,575,620	937,882	0	0	147,559	(422,417)	4,182,144	
Death	0	117,995	246,867	0	0	53,750	0	418,612	
Permanent Disability	0	117,995	246,867	0	0	53,750	0	418,612	
Good Reason After Change in Control	1,943,500	1,575,620	937,882	0	0	147,559	(422,417)	4,182,144	

(1) The amounts shown in this column include amounts payable with respect to health and life insurance, financial counseling and outplacement, and vacation, as applicable.



**Table of Contents****Director Compensation****DIRECTOR COMPENSATION FOR FISCAL 2016**

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$) <sup>(1)</sup>	Option Awards (\$)	All Other Compensation (\$) <sup>(2)</sup>	Total (\$)
Colleen C. Barrett <sup>(3)</sup>	92,500	149,997	0	0	242,497
Paul J. Brown <sup>(4)</sup>	33,654	103,978	0	10,000	147,632
Thomas J. Engibous <sup>(5)</sup>	0	23,750	0	10,000	33,750
Amanda Ginsberg <sup>(6)</sup>	77,500	149,997	0	0	227,497
B. Craig Owens <sup>(7)</sup>	87,500	149,997	0	10,000	247,497
Lisa A. Payne <sup>(8)</sup>	73,846	190,572	0	10,000	274,418
J. Paul Raines <sup>(9)</sup>	18,860	250,558	0	10,000	279,418
Leonard H. Roberts <sup>(10)</sup>	77,500	149,997	0	10,000	237,497
Stephen I. Sadove <sup>(11)</sup>	17,500	0	0	10,000	27,500
Javier G. Teruel <sup>(12)</sup>	21	237,476	0	0	237,497
R. Gerald Turner <sup>(13)</sup>	77,500	149,997	0	10,000	237,497
Ronald W. Tysoe <sup>(14)</sup>	112,500	149,997	0	10,000	272,497

- (1) Each non-employee director receives an annual stock grant consisting of a number of restricted stock units having a market value nearest to \$150,000. For fiscal 2016, the number of units was determined by dividing \$150,000 by the closing price of Company common stock on the date of grant (rounded to the nearest whole unit). The amounts shown in this column include the fair value of the annual stock award for fiscal 2016, which was based on the closing price of JCPenney common stock on the date of grant, which was \$7.91. The date of grant of the annual stock grant to non-employee directors is the third trading date following the Company's Annual Meeting of Stockholders.
- (2) Includes the value of Company matching contributions under the Directors' Matching Fund. Under this program, directors may request the Company to match dollar-for-dollar their personal charitable contributions up to \$10,000 per fiscal year.
- (3) Ms. Barrett had 94,609 stock awards, consisting of 90,527 restricted stock unit awards and 4,082 restricted stock awards, outstanding as of January 28, 2017.
- (4) Mr. Brown had 10,865 restricted stock unit awards outstanding as of January 28, 2017. Mr. Brown became a director on September 21, 2016 and received an award of restricted stock units that represented a pro-rata amount of the 2016 annual equity award using the closing price of JCPenney common stock on the date of grant, which was \$9.57.
- (5) Mr. Engibous elected to receive 100 percent of his cash retainers in shares of Company common stock. The amount shown in the Stock Awards column includes the fair value of stock received in lieu of cash. Fractional shares are paid out in cash. Mr. Engibous had 83,884 stock awards, consisting of 71,564 restricted stock unit awards and 12,320 restricted stock awards, outstanding as of May 20, 2016, the day on which he retired from the Board.
- (6) Ms. Ginsberg had 34,308 restricted stock unit awards outstanding as of January 28, 2017.
- (7) Mr. Owens had 49,087 restricted stock unit awards outstanding as of January 28, 2017.

- (8) Ms. Payne had 23,194 restricted stock unit awards outstanding as of January 28, 2017. Ms. Payne became a director on February 23, 2016 and received an award of restricted stock units that represented a pro-rata amount of the 2015 annual equity award using the closing price of JCPenney common stock on the date of grant, which was \$9.59.
- (9) Mr. Raines has elected to receive 100 percent of his cash retainers in shares of Company common stock. The amount shown in the Stock Awards column includes the fair value of stock received in lieu of cash. Fractional shares are paid out in cash. Mr. Raines had 23,194 restricted stock unit awards outstanding as of January 28, 2017. Mr. Raines became a director on February 23, 2016 and received an award of restricted stock units that represented a pro-rata

**Table of Contents****Director Compensation**

amount of the 2015 annual equity award using the closing price of JCPenney common stock on the date of grant, which was \$9.59.

- (10) Mr. Roberts had 100,286 stock awards, consisting of 90,527 restricted stock unit awards and 9,759 restricted stock awards, outstanding as of January 28, 2017.
- (11) Mr. Sadove had 45,328 restricted stock unit awards outstanding as of May 20, 2016, the day on which he retired from the Board.
- (12) Mr. Teruel has elected to receive 100 percent of his cash retainers in shares of Company common stock. The amount shown in the Stock Awards column includes the fair value of stock received in lieu of cash. Fractional shares are paid out in cash. Mr. Teruel had 86,024 restricted stock unit awards outstanding as of January 28, 2017.
- (13) Dr. Turner had 105,347 stock awards, consisting of 90,527 restricted stock unit awards, 13,220 restricted stock awards and 1,600 option awards outstanding as of January 28, 2017.
- (14) Mr. Tysoe had 62,432 restricted stock unit awards outstanding as of January 28, 2017.

***Cash Retainers and Stock Award***

Directors who are Company associates do not receive directors' fees. The Corporate Governance Committee has the responsibility for recommending to the Board the appropriate compensation for non-employee directors.

For 2016, non-employee directors received the following annual compensation:

- An annual cash retainer of \$70,000, which was increased to \$80,000 effective December 1, 2016;
- An annual award of restricted stock units with a market value at the time of grant of \$150,000;
- An annual cash retainer of \$20,000 for the chairs of the Audit Committee and the Human Resources and Compensation Committee;
- An annual cash retainer of \$15,000 for the chairs of the Corporate Governance Committee and the Finance and Planning Committee;
- An annual cash retainer of \$25,000 for the Lead Independent Director, which was increased to \$30,000 effective December 1, 2016;
- An annual cash retainer of \$100,000 for a Non-Executive Chairman of the Board; and
- An annual cash retainer of \$5,000 for directors who are Representatives under an Indemnification Trust Agreement among the Company, its wholly owned subsidiary, J. C. Penney Corporation, Inc., and SunTrust Bank, as trustee (currently Directors Barrett, Ginsberg, Raines and Turner).

Director compensation covers the period from June 1 to May 31 following the election of directors at the annual meeting in May. The Corporate Governance Committee conducts periodic reviews to assure that non-employee directors are reasonably compensated in relation to comparable U.S. companies. In November 2016, based on such review, which included benchmarking against the Company's peers, the Board increased the annual cash retainer for all non-employee directors to \$80,000 from \$70,000 and increased the annual cash retainer for the Lead Independent Director to \$30,000 from \$25,000. These changes took effect on December 1, 2016.

The cash retainers are payable quarterly. Non-employee directors are reimbursed for expenses incurred for attending any meeting which they attend in their official capacities as directors. Director equity awards are required to be held until the director's service ends.



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**Director Compensation**

***Election to Receive Common Stock; Deferral***

Directors may elect to receive all or a portion of their cash retainers in Company common stock. Two directors currently elect to receive all or part of their cash retainers in Company common stock. A director may also elect to defer payment of all or part of their cash retainers under the terms of a deferred compensation plan for directors. No current director has elected such deferral.

***Directors Charitable Award Program***

The Directors Charitable Award Program was frozen by the Board in 2000. Only one of the current directors participates in the program. The Charitable Award Program was designed to acknowledge the service of directors and to recognize the mutual interest of directors and the Company in supporting worthy charitable and educational institutions. Pursuant to the Charitable Award Program, the Company has purchased joint life insurance policies on groups of directors (in the event of an uneven number of directors, a single life policy was purchased). Each group generally consists of two directors with the Company named as the beneficiary of each joint life policy. With respect to each group, the Company will receive a \$1,000,000 death benefit upon the death of the second director of the group. The Company in turn has informally agreed to donate a total of \$1,000,000 to one or more charitable organizations as recommended by the individual directors. The Company will donate \$500,000 upon the earlier of (i) five years after the date of death of the first director of the group to die or (ii) the death of the second director of the group. The Company will donate an additional \$500,000 upon the death of the second director of the group. Because all charitable deductions accrue solely to the Company, the individual directors derive no financial benefits from this program.

***Directors Matching Fund***

Members of the Board may be involved with charitable organizations to which they provide support in the form of personal charitable contributions. As with the Charitable Award Program, the Company has established the Directors Matching Fund to benefit and recognize the mutual interest of directors and the Company in supporting worthy charitable and educational institutions. Under the Directors Matching Fund, directors may request the Company to match dollar-for-dollar their personal charitable contributions up to \$10,000 per fiscal year. All or part of the matching contributions may be allocated to one or several organizations that have been determined to be charitable organizations under Section 501(c)(3) of the Code or that are a political subdivision of the state. Matches may only be made on personal gifts that have been paid within that fiscal year, not pledged.

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**Audit Function**

**AUDIT FUNCTION**

***Report of the Audit Committee***

**Composition and Qualifications**

The Audit Committee of the Board is composed of four independent directors and operates under a written charter, in accordance with applicable rules of the SEC and the NYSE. The Corporate Governance Committee and the full Board considers membership for the Audit Committee annually. The current members of the Audit Committee are Lisa A. Payne, Leonard H. Roberts, Javier G. Teruel and B. Craig Owens, who serves as its Chair. The Board of Directors has determined that each member is financially literate and qualifies as an audit committee financial expert, as those terms are defined by the NYSE and the SEC.

**Purpose**

The purpose of the Audit Committee is to assist the Board in monitoring: (i) the Company's accounting and financial reporting processes, including internal control over financial reporting; (ii) the Company's compliance with legal and regulatory requirements; (iii) the independence and qualifications of the Company's independent auditor; and (iv) the performance of the Company's internal auditors and independent auditor.

**Responsibilities**

Management is responsible for maintaining adequate internal control over financial reporting. KPMG LLP is responsible for expressing opinions on the conformity of the Company's audited consolidated financial statements with U.S. generally accepted accounting principles and on the effectiveness of the Company's internal control over financial reporting. The Audit Committee's responsibility is to monitor and oversee these processes. The Audit Committee is also solely responsible for the selection and termination of the Company's independent auditor, including the approval of audit fees and non-audit services provided by and fees paid to the independent auditor.

**Review of Financial Information**

In this context, the Audit Committee has met and held discussions with management of the Company, who represented to the Audit Committee that the Company's audited consolidated financial statements were prepared in accordance with U.S. generally accepted accounting principles. The Audit Committee has reviewed and discussed the audited consolidated financial statements, management's assessment of the effectiveness of the Company's internal control over financial reporting, and KPMG LLP's evaluation of the Company's internal control over financial reporting with both management and the independent auditor. The Audit Committee also discussed with the independent auditor the matters required to be discussed by Auditing Standard No. 1301 (Communications with Audit Committees). The Audit Committee has received the written disclosures and the letter from the independent auditor required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent auditor's communications with the Audit Committee concerning independence, and the Audit Committee discussed with the independent auditor its independence. The Audit Committee also participated in the certification process relating to the filing of certain reports pursuant to the Exchange Act.



**Table of Contents****Audit Function****Inclusion of Consolidated Financial Statements in Form 10-K**

Based on the review and discussions referred to above, the Audit Committee recommended to the Board that the audited consolidated financial statements be included in the Company's Annual Report on Form 10-K for the year ended January 28, 2017 for filing with the SEC.

**Independent Auditor**

The Audit Committee also recommends that the Company's stockholders ratify KPMG LLP as the Company's independent auditor for the 2017 fiscal year.

**Audit Committee**

B. Craig Owens, Chair  
Lisa A. Payne

Leonard H. Roberts  
Javier G. Teruel

**Audit and Other Fees**

The following table presents fees for professional services rendered by KPMG LLP:

	<b>Fiscal 2015</b>	<b>Fiscal 2016</b>
Audit Fees <sup>(1)</sup>	\$ 3,756,000	\$ 3,251,920
Audit-Related Fees <sup>(2)</sup>	114,000	184,000
<b>Total Audit and Audit-Related Fees</b>	<b>\$ 3,870,000</b>	<b>\$ 3,435,920</b>
Tax Fees		
Tax Compliance Fees <sup>(3)</sup>	\$ 43,800	\$ 8,000
Tax Planning and Advice Fees <sup>(4)</sup>		60,000
All Other Fees <sup>(5)</sup>	100,000	\$
<b>Total Fees<sup>(6)</sup></b>	<b>\$ 4,013,800</b>	<b>\$ 3,503,920</b>

- (1) Audit fees include fees for the audits of the Company's annual consolidated financial statements, for professional services rendered for the audits of internal control over financial reporting, for quarterly reviews, for review of SEC filings, for statutory audits and other related matters.
- (2) Audit-related fees in fiscal 2015 were for for review of internal controls in connection with the adoption of the 2013 Committee of Sponsoring Organizations of the Treadway Commission internal control framework and for the audit of financial statements of a related entity. Audit-related fees in fiscal 2016 were for the audit of financial statements of a related entity and for financial due diligence services in connection with potential corporate transactions.
- (3) Tax compliance fees consist of fees for services related to international tax matters and transfer pricing.



- (4) Tax planning and advice fees were for tax due diligence services in connection with potential corporate transactions.
- (5) Other fees consist of an engagement to assist with the purchase of a group annuity contract for the transfer of a portion of the obligations and assets of the Company's Primary Pension Plan.
- (6) All fees were pre-approved by the Audit Committee.

***Audit Committee's Pre-Approval Policies and Procedures***

The Audit Committee must approve any fee for services to be performed by the Company's independent auditor in advance of the service being performed. For proposed projects using the

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**Audit Function**

services of the Company's independent auditor that are expected to cost over \$200,000, or 5% of the auditor's fee for the preceding year, whichever is lower, the Audit Committee will be provided information to review and must approve each project prior to commencement of any work. For proposed projects using the services of the Company's independent auditor that are expected to cost \$200,000 or less, or less than 5% of the auditor's fee for the preceding year, whichever is greater, the Audit Committee will be asked to review and approve a maximum amount for certain services, which may include services in any one or more of the following categories: (a) audit fees; (b) audit-related fees; (c) tax fees; and (d) all other fees for any services allowed to be performed by the independent auditor. If additional amounts are needed, the Audit Committee must approve the increased amounts prior to the previously approved maximum being reached and before the work may continue. Approval by the Audit Committee may be made at its regularly scheduled meetings or otherwise, including by telephonic or other electronic communications. The Company will report the status of the various types of approved services and fees, and cumulative amounts paid and owed, to the Audit Committee on a periodic basis as appropriate.

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**Proposal 2 - Ratification of Appointment of Independent Auditor**

**PROPOSAL 2 RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITOR**

KPMG LLP, independent certified public accountants, member of the SEC Practice Section of the AICPA Division for CPA firms, and registrant with the Public Company Accounting Oversight Board, has been the auditor of the Company's consolidated financial statements since 1916. Its appointment as the Company's independent auditor for the fiscal year ending February 3, 2018 has been approved by the Audit Committee of the Board. Stockholder ratification of such appointment is requested.

It is anticipated that a representative of KPMG LLP will attend the meeting, will be available to respond to appropriate questions, and will have an opportunity to make a statement should he or she so desire.

*The Board recommends a vote FOR the ratification of the appointment of KPMG LLP.*

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**Proposal 3 - Approval of Extension of Amended and Restated Rights Agreement**

**PROPOSAL 3 APPROVAL OF EXTENSION OF AMENDED AND RESTATED RIGHTS AGREEMENT**

***Introduction***

Our past business operations generated significant net operating losses and unrealized tax losses (collectively, NOLs). Under federal tax laws, we generally can use our NOLs and certain related tax credits to offset ordinary income tax paid in our prior two tax years or on our future taxable income for up to 20 years, when they expire for such purposes. Until they expire, we can carry forward NOLs and certain related tax credits that we do not use in any particular year to offset taxable income in future years. As of January 28, 2017, we had more than \$2 billion in NOLs. While we cannot estimate the exact amount of NOLs that we can use to reduce our future income tax liability because we cannot predict the amount and timing of our future taxable income, we believe our NOLs are very valuable assets.

Our ability to utilize our NOLs to offset future taxable income may be significantly limited if we experience an ownership change, as determined under Section 382 of the Internal Revenue Code of 1986, as amended (the Code). Under Section 382, an ownership change occurs if a stockholder or a group of stockholders that is deemed to own at least 5% of our common stock increases its ownership by more than 50 percentage points over its lowest ownership percentage within a rolling three-year period. If an ownership change occurs, Section 382 would impose an annual limit on the amount of our NOLs that we can use to offset taxable income equal to the product of the total value of our outstanding equity immediately prior to the ownership change (reduced by certain items specified in Section 382) and the federal long-term tax-exempt interest rate in effect for the month of the ownership change. A number of complex rules apply to calculating this annual limit.

In order to reduce the likelihood that an ownership change would occur, the Board, after careful consideration, chose to adopt the J. C. Penney Company, Inc. Amended and Restated Rights Agreement on January 27, 2014 (the Rights Agreement). The adoption of the Rights Agreement was approved by the stockholders of the Company at our 2014 Annual Meeting of Stockholders held on May 16, 2014. By its terms, the Rights Agreement would have expired on January 26, 2017. Subject to certain limited exceptions, the Rights Agreement is designed to deter any person from buying our common stock (or any interest in our common stock) if the acquisition would result in a stockholder (or several stockholders, in the aggregate, who hold their stock as a group under the federal securities laws) beneficially owning 4.9% or more of our then-outstanding common stock without approval of the Board.

If an ownership change were to occur, the limitations imposed by Section 382 could result in a material amount of our NOLs expiring unused and, therefore, significantly impair the value of our NOLs. While the complexity of Section 382's provisions and the limited knowledge any public company has about the ownership of its publicly traded stock make it difficult to determine whether an ownership change has occurred, we believe that the ownership change percentage as of January 28, 2017 was approximately 1% and therefore we currently believe that an ownership change has not occurred. However, if no action is taken to continue to preserve our NOLs, it is possible that we could experience an ownership change in the future.

After careful consideration, the Board determined that the most effective way to continue to protect the benefits of our NOLs for long-term stockholder value is to adopt an amendment (the Amendment) to the Rights Agreement to extend the term of the Rights Agreement by three years to January 26, 2020. On November 18, 2016, the Board approved the Amendment. The Company entered into the



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**Proposal 3 - Approval of Extension of Amended and Restated Rights Agreement**

Amendment on January 23, 2017. The terms of the Rights Agreement, as amended by the Amendment, are summarized below, but such description is qualified in its entirety by reference to the full text of the Rights Agreement, as amended by the Amendment, which is included as Annex A to this Proxy Statement.

The Amendment requires stockholder approval for the Rights Agreement, pursuant to which the Company has issued certain stock purchase rights with terms designed to deter transfers of our common stock that could result in an ownership change, to remain in effect. The Rights Agreement will expire immediately following the final adjournment of the Annual Meeting if stockholder approval of the Amendment is not received. The Amendment makes no other changes to the Rights Agreement other than the extension of the term of the Rights Agreement to January 26, 2020.

The Board urges our stockholders to carefully read this proposal, the items discussed below under the heading "Certain Considerations Related to the Extension of the Rights Agreement," and the full terms of the Rights Agreement, as amended by the Amendment, attached as Annex A to this Proxy Statement. It is important to note that the Rights Agreement does not offer a complete solution, and an ownership change may occur even if the Amendment is approved. The Rights Agreement may deter, but ultimately cannot block, transfers of our common stock that might result in an ownership change. The limitations of this measure are described in more detail below.

***The Board recommends a vote FOR the proposal to extend the term of the Rights Agreement.***

***Description of the Rights Agreement***

The Rights Agreement is intended to act as a deterrent to any person or group becoming the beneficial owner of 4.9% or more of our outstanding common stock (an Acquiring Person) without the approval of the Board, other than as a result of (x) repurchases of stock by the Company, (y) a stock dividend, stock split, reverse stock split or similar transaction or (z) certain inadvertent actions by certain stockholders. However, no person who, at the time of the first public announcement of the Rights Agreement, beneficially owned 4.9% or more of the outstanding shares of common stock will be deemed an Acquiring Person, unless and until such person acquires beneficial ownership of additional shares of common stock, with certain exceptions. In addition, no person who beneficially owns 4.9% or more of the outstanding shares of common stock will be deemed an Acquiring Person if the Board, in its sole discretion, so determines in light of the intent and purposes of the Rights Agreement or other circumstances facing the Company.

***The Rights.*** The Board authorized the issuance of one right per each outstanding share of our common stock payable to our stockholders of record as of the close of business on September 3, 2013. Subject to the terms, provisions and conditions of the Rights Agreement, if these rights become exercisable, each right would initially represent the right to purchase from us a unit consisting of one one-thousandth of a share of our Series C Junior Participating Preferred Stock for a purchase price of \$55.00 per unit. If issued, each fractional share of preferred stock would generally give a stockholder approximately the same dividend, voting and liquidation rights as does one share of our common stock. However, prior to exercise, a right does not give its holder any rights as a stockholder, including without limitation any dividend, voting or liquidation rights.

***Exercisability.*** The rights will not be exercisable until the earlier of (i) the close of business on the tenth business day after public announcement that a person has become an Acquiring Person (the date of such public announcement is referred to herein as the Stock Acquisition Date) or (ii) the close of business on the tenth business day (or such later

date as the Board shall determine) after a third

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**Proposal 3 - Approval of Extension of Amended and Restated Rights Agreement**

party makes a tender or exchange offer which, if consummated, would result in such third party becoming an Acquiring Person. In this Proxy Statement, we refer to the date on which the rights become exercisable as the Distribution Date.

Prior to a Distribution Date, the rights will be evidenced by, and trade with, the common stock and will not be exercisable or transferable apart from the common stock. After a Distribution Date, the rights agent would send certificates representing rights to stockholders and the rights would trade independent of the common stock.

*Flip-in Feature.* If any person or group of affiliated or associated persons becomes an Acquiring Person, then each right (other than rights owned by an Acquiring Person, its affiliates, associates or certain transferees, which will become void) will entitle the holder to purchase, at the then current exercise price, common stock (or, in certain circumstances, a combination of common stock, other securities, cash or other property) having a value of twice the exercise price of the right, in effect enabling a purchase at half-price. However, rights are not exercisable following such an event until such time as the rights are no longer redeemable by the Company as described below.

*Flip-over Feature.* If, at any time after a person or group of affiliated or associated persons becomes an Acquiring Person, the Company engages in a merger or other business combination transaction or series of related transactions in which the Company is not the surviving corporation, the common stock is changed or exchanged, or fifty percent or more of its assets, cash flow or earning power is sold, then each right (not previously voided by the occurrence of a flip-in event ) will entitle the holder to purchase, at the right s then current exercise price, common stock of such Acquiring Person having a value of twice the right s then current exercise price, in effect enabling a purchase at half-price.

*Exchange.* At any time after a person or group of affiliated or associated persons becomes an Acquiring Person and prior to the acquisition by such person or group of fifty percent or more of the then outstanding common stock, the Board may, in lieu of allowing rights to be exercised, cause each outstanding right (other than rights owned by an Acquiring Person, its affiliates, associates or certain transferees, which will become void) to be exchanged for one share of common stock or one one-thousandth of a share of preferred stock, in each case as adjusted to reflect stock splits or similar transactions.

*Redemption.* The rights may be redeemed by the Board, at a price of \$0.001 per right, at any time prior to the earlier of (i) the Stock Acquisition Date or (ii) the final expiration of the rights.

*Anti-Dilution Provisions.* The purchase price payable and the number of preferred shares issuable upon exercise of the rights are subject to adjustment to prevent dilution that may occur as a result of certain events, including, among others, a stock dividend, a stock split or a reclassification of the preferred shares. With certain exceptions, no adjustments to the purchase price of less than 1% will be made.

*Amendments.* Prior to a Distribution Date, the Company may amend the Rights Agreement in any respect. From and after a Distribution Date, the Board may amend the Rights Agreement in order to (i) cure any ambiguity, (ii) correct or supplement any provision which may be defective or inconsistent with any other provisions, (iii) shorten or lengthen any time period (e.g., the redemption period prior to the rights becoming non-redeemable) or (iv) change or supplement the provisions in any manner which the Company may deem necessary or desirable and which does not adversely affect the interests of the holders of certificates representing rights. The Rights Agreement, however, may



not be amended at a time when the rights are not redeemable (other than certain limited technical amendments).

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**Proposal 3 - Approval of Extension of Amended and Restated Rights Agreement**

*Expiration.* The rights will expire on the earliest of (i) the close of business on January 26, 2020 or such later date as may be established by the Board prior to the expiration of the rights, (ii) the time at which the rights are redeemed or exchanged pursuant to the Rights Agreement, (iii) the repeal of Section 382 or any successor statute if the Board determines that the Rights Agreement is no longer necessary or desirable for the preservation of our NOLs, (iv) the beginning of a taxable year of the Company to which the Board determines that our NOLs may not be carried forward or (v) immediately following the final adjournment of the Annual Meeting if stockholder approval of the Amendment has not been received.

***Certain Considerations Related to the Extension of the Rights Agreement***

The Board believes that attempting to protect the tax benefits of our NOLs as described above is in our and our stockholders' best interests; however, we cannot eliminate the possibility that an ownership change will occur even if the Amendment is approved. Please consider the items discussed below in voting on this Proposal 3.

**The IRS could challenge the amount of our NOLs or claim we experienced an ownership change, which could reduce the amount of our NOLs that we can use or eliminate our ability to use them altogether.**

The IRS has not audited or otherwise validated the amount of our NOLs. The IRS could challenge the amount of our NOLs, which could limit our ability to use our NOLs to reduce our future taxable income. In addition, the complexity of Section 382's provisions and the limited knowledge any public company has about the ownership of its publicly traded stock make it difficult to determine whether an ownership change has occurred. Therefore, we cannot assure you that the IRS will not claim that we experienced an ownership change and attempt to reduce or eliminate the benefit of our NOLs even if the Rights Agreement is in place.

*Continued Risk of Ownership Change.* Although the Rights Agreement is intended to reduce the likelihood of an ownership change, we cannot assure you that it would prevent all transfers of our common stock that could result in such an ownership change.

*Potential Impact on Value.* If the Amendment is adopted, the Board intends to re-affirm the terms of the Rights Agreement to the public generally. Because certain buyers, including persons who wish to acquire more than 5% of our common stock and certain institutional holders who object to holding our common stock subject to the terms of the Rights Agreement, may not choose to purchase our common stock, the Rights Agreement could depress the value of our common stock in an amount that could more than offset any value preserved from protecting our NOLs.

*Potential Anti-Takeover Impact.* The reason the Board approved the Rights Agreement is to preserve the long-term value of our NOLs. The Rights Agreement is not intended to prevent a takeover of the Company. However, the Rights Agreement could be deemed to have a potential anti-takeover effect because an Acquiring Person may be diluted upon the occurrence of a triggering event. Accordingly, the overall effect of the Rights Agreement may be to render more difficult, or discourage, a merger, tender offer, proxy contest or assumption of control by a substantial holder of our securities. The Amendment proposal is not the result of any potential takeover transaction known to us and is not part of a plan by us to adopt a series of anti-takeover measures.

Stockholders should be aware that we are subject to Section 203 of the Delaware General Corporation Law, which provides, in general, that a transaction constituting a business combination

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**Proposal 3 - Approval of Extension of Amended and Restated Rights Agreement**

within the meaning of Section 203 involving a person owning 15% or more of our outstanding voting stock (referred to as an interested stockholder ) cannot be completed for a period of three years after the time the person became an interested stockholder unless (i) prior to such time, our Board approved either the business combination or the transaction that resulted in the person becoming an interested stockholder, (ii) upon consummation of the transaction that resulted in the person becoming an interested stockholder, that person owned at least 85% of our outstanding voting stock (excluding shares owned by persons who are both directors and officers of the Company and shares owned by certain of our employee benefit plans), or (iii) the business combination was approved by our Board and by the affirmative vote of the holders of at least 66-2/3% of our outstanding voting stock not owned by the interested stockholder.

Our Restated Certificate of Incorporation and our Bylaws contain certain provisions that may also be deemed to have a potential anti-takeover effect, including:

In non-contested elections, each director must be elected by the affirmative vote of the majority of the votes cast with respect to that director s election, subject to our director resignation policy; in a contested election, directors are elected by a plurality. Cumulative voting is not permitted in the election of directors.

Stockholders have no preemptive right to acquire our securities.

Stockholders may not act by written consent. The provisions regarding action by written consent require the vote of at least a majority of the combined voting power of the then-outstanding shares of voting stock, voting together as a single class, to be removed or amended.

Our Bylaws contain advance notice requirements for any stockholder to present a nomination for director or other proposal at an annual or special meeting of stockholders.

Only the Board can call special meetings of stockholders and the only business that may be brought before a special meeting is such business specified by the Board in the notice of the meeting.

Our authorized but unissued shares of common stock and preferred stock may be issued without additional stockholder approval and may be utilized for a variety of corporate purposes.

***Required Vote***

To be approved, this proposal must receive the affirmative vote of the shares of common stock present in person or by proxy at the Annual Meeting that are entitled to vote on such matter. If the Amendment is not approved by our stockholders, the Rights Agreement will terminate immediately following the final adjournment of the Annual Meeting.

***The Board recommends a vote FOR the proposal to extend the term of the Rights Agreement.***



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**Proposal 4 - Approval of Amended and Restated Management Incentive Compensation Program**

**PROPOSAL 4 APPROVAL OF AMENDED AND RESTATED  
MANAGEMENT INCENTIVE COMPENSATION PROGRAM**

***Introduction***

The Board, on recommendation by the Human Resources and Compensation Committee (the Committee) of the Board, adopted the Amended and Restated J. C. Penney Corporation, Inc. Management Incentive Compensation Program (the MIP) on November 18, 2016. The MIP amends and restates the J. C. Penney Corporation, Inc. Management Incentive Compensation Program that was adopted by the Board on January 10, 2011 and was approved by our stockholders at the 2012 Annual Meeting of Stockholders held on May 18, 2012. The principal features of the MIP are summarized below, but such description is qualified in its entirety by reference to the full text of the MIP which is included as Annex B to this Proxy Statement. All capitalized terms not defined in this Proposal 4 will have the meanings set forth in Annex B to this Proxy Statement.

The purpose of the MIP is to promote our pay-for-performance compensation philosophy by providing cash incentive awards to designated members of our management, who, through their efforts, directly and significantly impact the achievement of our goals and objectives. The MIP gives the Committee discretion to choose one or more appropriate performance measures by which to measure executives' performance in any given performance period. The performance measures are set at the beginning of each performance period.

As described in the Compensation Discussion and Analysis in this Proxy Statement, Section 162(m) of the Code places a limit of \$1,000,000 on the compensation that we may deduct in any given year with respect to the CEO and certain other of our highly paid executive officers. This limit does not apply to performance-based compensation. One of the conditions for qualification as performance-based compensation is that an independent compensation committee must establish objective performance goals for those executives at the beginning of each performance period using performance measures the material terms of which are approved by stockholders. The MIP is designed to comply with the requirements of Section 162(m) of the Code and it is our intention to administer the MIP in a manner that complies with Section 162(m) of the Code.

We are seeking to obtain stockholder approval of the MIP so that future qualifying performance-based compensation will not be subject to the deduction limitations of Section 162(m). If stockholders do not approve the MIP, the Company may continue to provide cash incentive awards to associates but such compensation will be subject to the deduction limitations of Section 162(m).

***The Board recommends a vote FOR the proposal to approve the Amended and Restated Management Incentive Compensation Program.***

***Principal Features of the MIP***

**General.** The MIP operates in a similar manner to the J. C. Penney Corporation, Inc. Management Incentive Compensation Program, effective January 30, 2011, which was replaced by the MIP effective January 29, 2017.

The MIP contains certain amendments to the J. C. Penney Corporation, Inc. Management Incentive Compensation Program that was effective January 30, 2011, including:

A change in the maximum amount payable under the MIP to any participant for any fiscal year to \$12 million from the lesser of \$7 million and 400% of the participant's base salary as of the date of grant of the award;

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**Proposal 4 - Approval of Amended and Restated Management Incentive Compensation Program**

Adding additional performance measures available for awards designed to qualify as performance-based compensation; and

Adding a right of offset and claw-back for the Company to the extent set forth in the Company's claw-back policy.

**Administration.** The Committee, all of whose members are independent, outside directors, will administer the MIP. The Committee will have the authority to grant cash incentive awards upon such terms, consistent with the terms of the MIP, as it considers appropriate, to our executive officers and certain other officers. The Committee will have complete authority to interpret all provisions of the MIP, to adopt, amend and rescind rules and regulations pertaining to the administration of the MIP and to make all other determinations necessary or advisable for the administration of the MIP.

The Committee is solely responsible for administering the MIP in connection with awards of performance-based compensation to our covered executives that comply with Section 162(m) of the Code. The MIP, however, permits the Committee to delegate authority for administration of the MIP with respect to executive officers and officers of the Company whose compensation is not subject to the limitations of Section 162(m) of the Code to one or more designees.

**Eligibility.** Eligibility to participate in the MIP will be determined by the Committee or its designee. Eligibility to participate can be determined on an individual basis, or by group, business unit, subsidiary, division, job description, or any other method of classification the Committee or its designee considers appropriate. Currently, it is anticipated that approximately 6,300 associates will be eligible to participate.

**Determination of Performance Measures.** Awards may be based on one or more of the following performance measures chosen by the Committee:

- earnings per share;
- total stockholder return;
- operating profit;
- operating income;
- net income;
- cash flow;
- gross profit;
- gross profit return on investment;
- return on equity;
- return on capital;
- return on investment capital;
- sales;
- comparable store sales;
- revenue;
- gross margin;
- gross margin return on investment;
- selling, general and administrative expense (SG&A);



economic value added (EVA);  
sales per square foot;  
net cash from operating activities;  
gross margin as a percentage of sales;  
earnings before interest and taxes (EBIT);  
earnings before interest, taxes, depreciation and amortization (EBITDA);

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**Proposal 4 - Approval of Amended and Restated Management Incentive Compensation Program**

Net Promoter Score (NPS); and  
customer satisfaction.

The Committee or its designee may select different performance measures for different participants in any performance period. The Committee or its designee also selects the relevant performance periods, which may be based on one or more calendar months or one or more fiscal quarters or fiscal years of the Company. In addition to selecting the performance measures, the Committee or its designee will also approve the level of performance that must be attained to earn a payment under an award. The required level of performance that must be attained can be measured as an absolute amount or relative to other periods or to a designated peer group. The performance measure may be tied to performance achieved by the Company or any subsidiary, division, group, business unit, store or any other organizational unit the Committee or its designee may choose.

The Committee is solely responsible for making awards to covered officers that constitute performance-based compensation under Section 162(m) of the Code. The terms for awards intended to constitute performance-based compensation under Section 162(m) of the Code will be determined by the Committee no later than the latest possible date that will not jeopardize the awards from satisfying the requirements of Section 162(m) of the Code.

In addition, for any award that is not intended to constitute performance-based compensation under Section 162(m) of the Code, the performance measures may include, alone or in combination with the performance measures listed above, a subjective evaluation of a participant's individual performance as compared to the participant's individual goals for the performance period or on such other subjective performance criteria as may be established by the Committee or its designee.

**Determination of Cash Incentive Amounts.** The target opportunity for each participant will be determined by the Committee or its designee at the beginning of the performance period. The target opportunity may be established as a set dollar amount or as a percentage of the participant's compensation (typically based on a percentage of base salary). At the end of the performance period, the Committee or its designee will certify levels of achievement of the performance measures and pay out any earned awards in the form of cash payments. The Committee and its designee, if any, has discretion to exclude the effects of extraordinary items, unusual or non-recurring events, changes in accounting principles or methods, realized investment gains or losses, discontinued operations, acquisitions, divestitures, material restructuring or impairment charges, uninsured losses for natural catastrophes and any other items the Committee or its designee determines is necessary to provide appropriate period-to-period comparisons, so long as with respect to covered officers subject to Section 162(m) of the Code such adjustments are permissible under Section 162(m) of the Code.

**Maximum Payments.** The maximum amount payable under the MIP to any participant for any fiscal year is \$12 million.

**Payment.** Any amounts payable under the MIP shall be paid to a participant in cash at a time determined by the Committee, but in no event will any amount payable under the MIP be paid more than two and one-half months after the end of the fiscal year in which the performance period giving rise to such payment ends.

**Amendment and Termination.** The Board has the right to amend, modify, suspend and terminate the MIP at any time. No amendment, modification, suspension or termination of the MIP can adversely affect the rights of a participant with respect to a performance period that has already begun that has not been completed or with respect to

any amounts payable under the MIP without the participant's written consent.

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**Table of Contents****Proposal 4 - Approval of Amended and Restated Management Incentive Compensation Program**

**Tax Matters.** As described in the Compensation Discussion and Analysis in this Proxy Statement, Section 162(m) of the Code places a limit of \$1,000,000 on the compensation that we may deduct in any given year with respect to the CEO and certain other of our highly paid executive officers. One of the conditions for qualification as performance-based compensation is that the stockholders must approve the material terms of the performance measures and re-approve those material terms every five years. Amounts paid under the objective performance measures established under the MIP will, under current tax law, qualify as performance-based compensation if stockholders approve the MIP.

**Equity Compensation Plan(s) Information**

The following table shows the number of options and other awards outstanding as of January 28, 2017 under the J. C. Penney Company, Inc. 2016 Long-Term Incentive Plan (2016 Plan) and subsequent plans, as well as the number of shares remaining available for grant under the 2016 Plan.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	23,267,513 <sup>(1)</sup>	\$ 17.88 <sup>(2)</sup>	18,413,671 <sup>(3)</sup>
Equity compensation plans not approved by security holders	862,677 <sup>(4)</sup>	\$ 8.35 <sup>(5)</sup>	
<b>Total</b>	<b>24,130,190</b>	<b>\$ 17.83<sup>(6)</sup></b>	<b>18,413,671</b>

(1) Includes 9,711,731 restricted stock units.

(2) Represents the weighted-average exercise price of outstanding stock options only and the weighted-average remaining term is 5.6 years.

(3) At the May, 20, 2016 Annual Meeting of Stockholders, our stockholders approved the 2016 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

1.6 shares issued. The 2016 Plan reserved 12,250,000 shares or 19,600,000 options for issuance to associates and non-employee directors. In addition, shares underlying any outstanding stock award or stock option grant from prior plans that are canceled prior to vesting or exercise become available for use under the 2016 plan. No shares remain available for future issuance from prior plans.

- (4) On May 20, 2014, the Company made an inducement equity award of 223,964 restricted stock units to our Chief Financial Officer, Edward J. Record, which vested one-third on May 20, 2015 and May 20, 2016 and will vest one-third on May 20, 2017. On November 17, 2014, the Company made an inducement equity award of 2,066,116 restricted stock units to our Chairman and Chief Executive Officer, Marvin R. Ellison, which vested one-third on November 17, 2015 and November 17, 2016 and will vest one-third on November 17, 2017. On June 11, 2015, the Company made an inducement equity award of 78,358 stock options and 31,437 restricted stock units to our Chief Accounting Officer, Andrew S. Drexler, which vested one-third on June 11, 2016 and will vest one-third on June 11, 2017 and June 11, 2018.
- (5) Represents the weighted average exercise price of outstanding stock options only. The weighted average remaining term is 8.4 years.
- (6) Represents the weighted average exercise price of outstanding stock options only. The weighted average remaining term is 5.6 years.

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**Proposal 5 - Advisory Vote on Compensation of our Named Executive Officers**

**PROPOSAL 5 ADVISORY VOTE ON COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS**

The Human Resources and Compensation Committee of the Board is responsible for establishing and implementing our executive compensation program. The Human Resources and Compensation Committee determines compensation for each named executive officer other than the CEO. The compensation of the CEO is determined by all of the independent directors of the Board. Our executive compensation program is designed to link pay to Company performance and align the pay of our named executive officers with the interests of our stockholders. Stockholders are encouraged to read the Compensation Discussion and Analysis section for a more detailed discussion of how the Company's compensation program reflects our overall philosophy and objectives.

As required by Section 14A of the Exchange Act and pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the Dodd-Frank Act), we are asking stockholders to vote on the following resolution:

RESOLVED, that the Company's stockholders approve, on an advisory basis, the compensation of the named executive officers described in this Proxy Statement in the Compensation Discussion and Analysis section and the tabular disclosure regarding named executive officer compensation together with the accompanying narrative disclosure, as disclosed pursuant to the compensation disclosure rules of the Securities and Exchange Commission.

As an advisory vote, this proposal is non-binding. Although the vote is non-binding, the Board values the opinions of the Company's stockholders and will take into account the outcome of the vote when considering future compensation decisions. At the 2011 Annual Meeting of Stockholders, the Board recommended, and the stockholders approved, holding an annual vote on the compensation of our named executive officers.

*The Board recommends a vote FOR the approval of the compensation of the named executive officers.*

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**Proposal 6 - Advisory Vote on Frequency of Advisory Vote on Compensation of our Named Executive Officers**

**PROPOSAL 6 ADVISORY VOTE ON FREQUENCY OF ADVISORY VOTE  
ON COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS**

As required by Section 14A of the Exchange Act and pursuant to the Dodd-Frank Act, at least once every six years we are required to provide stockholders with the opportunity to cast a vote as to how frequently they would like the Company to hold an advisory vote on the compensation of our named executive officers (say-on-pay vote). Therefore, we are asking stockholders to vote whether the Company's future say-on-pay votes should be held every year, every other year or once every three years. At the 2011 Annual Meeting of Stockholders, the Board recommended, and the stockholders approved, holding a vote every year on the compensation of our named executive officers.

This vote is advisory and therefore non-binding. Although the vote is non-binding, the Board values the opinions of the Company's stockholders and will take into account the outcome of the vote when establishing the frequency of future say-on-pay votes.

Your proxy card provides four choices for you to cast your vote: every year, every two years, every three years, or you may abstain. You are not voting to approve or disapprove the Board's recommendation.

*The Board recommends a vote for the frequency of every year for holding the Company's future say-on-pay votes.*

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**ABOUT THE ANNUAL MEETING**

***Who is soliciting my vote?***

JCPenney's Board is soliciting your vote at the 2017 Annual Meeting of Stockholders.

***What will I be voting on?***

You will be voting on:

- Election of eleven directors nominated by the Board;
- Ratification of the appointment of KPMG LLP as JCPenney's independent auditor for the fiscal year ending February 3, 2018;
- Approval of an amendment and extension of the Amended and Restated Rights Agreement in order to continue to protect the tax benefits of our net operating loss carryforwards;
- Approval of the Amended and Restated Management Incentive Compensation Program;
- Advisory vote on executive compensation;
- Advisory vote on the frequency of the advisory vote on executive compensation; and
- Any other business that may properly come before the meeting.

***What are the Board of Directors' voting recommendations?***

The Board recommends that you vote your shares For each of the Board's nominees for director, For the ratification of the appointment of KPMG LLP as independent auditor for the fiscal year ending February 3, 2018, For the approval of the amendment and extension of the Amended and Restated Rights Agreement, For the approval of the Amended and Restated Management Incentive Compensation Program, For the approval of our executive compensation in connection with the advisory vote on executive compensation and For advisory votes on executive compensation to be held every year.

***Who is entitled to vote?***

All stockholders who owned JCPenney common stock at the close of business on the record date, March 20, 2017, are entitled to attend and vote at the Annual Meeting.

***How many votes do I have?***

You will have one vote for every share of JCPenney common stock you owned on the record date.

***How many votes can be cast by all stockholders?***

Each share of JCPenney common stock is entitled to one vote. There is no cumulative voting. On March 20, 2017, JCPenney had [ ] shares of common stock outstanding and entitled to vote.



***How many shares must be present to hold the Annual Meeting?***

A majority of the outstanding shares of JCPenney common stock as of the record date, or [ ] shares, must be present at the Annual Meeting in order to hold the meeting and conduct business. This is called a quorum.

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**About the Annual Meeting**

Shares are counted as present at the Annual Meeting if stockholders are present and vote in person or a proxy card has been properly submitted by or on behalf of a stockholder. Abstentions and broker non-votes are counted for purposes of determining the presence of a quorum.

***How many votes are required to elect directors and adopt the other proposals?***

You may vote For or Against with respect to the election of directors. Our Bylaws provide that in a non-contested election, each director must be elected by the affirmative vote of the majority of the votes cast with respect to that director's election. Accordingly, abstentions and broker non-votes will have no effect on the election of a director. Any director nominee who is an incumbent director and is not re-elected must promptly tender his or her resignation, and the Board, excluding the director who tenders his or her resignation, must promptly decide whether to accept or reject the resignation.

Ratification of the appointment of KPMG LLP as JCPenney's independent auditor requires the affirmative vote of a majority of the shares of JCPenney common stock present in person or by proxy that are entitled to vote on such matter. If you abstain from voting on this matter, your shares will be counted as present for purposes of establishing a quorum, and the abstention will have the same effect as a vote *against* the proposal. Broker non-votes will also have the same effect as a vote *against* the proposal.

Approval of the amendment and extension of the Amended and Restated Rights Agreement, approval of the Amended and Restated Management Incentive Compensation Program and approval of our executive compensation in connection with the advisory vote on executive compensation requires the affirmative vote of a majority of the shares of JCPenney common stock present in person or by proxy that are entitled to vote on each such matter. If you abstain from voting on any of these matters, your shares will be counted as present for purposes of establishing a quorum, and the abstention will have the same effect as a vote *against* the particular proposal. Broker non-votes are not entitled to be cast for these matters and accordingly will have no effect on the approval of these matters.

The advisory vote on the frequency of holding the advisory vote on executive compensation will be determined by a plurality vote which means that the frequency option that receives the most affirmative votes of the votes cast is the one that will be deemed approved by the stockholders. Abstentions and broker non-votes will not affect the outcome of this proposal.

***Why did I receive a one-page notice in the mail regarding the Internet availability of proxy materials instead of a full set of proxy materials?***

In accordance with rules adopted by the SEC, rather than mailing a printed copy of our proxy materials to each stockholder of record, we may send some or all of our stockholders a Notice of Internet Availability of Proxy Materials (the Notice), which indicates how our stockholders may:

- access their proxy materials and vote their proxies over the Internet;
- make a one-time request to receive a printed set of proxy materials by mail; or

make a permanent election to receive all of their proxy materials in printed form by mail or electronically by email.

***How can I get electronic access to the proxy materials?***

The Notice provides you with instructions regarding how to:

view our proxy materials for the Annual Meeting over the Internet; and

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### **About the Annual Meeting**

instruct us to send our future proxy materials to you electronically by email instead of sending you printed copies by mail.

Choosing to receive your future proxy materials by email will save us the cost of printing and mailing documents to you and will reduce the impact of our annual meetings of stockholders on the environment. If you choose to receive future proxy materials by email, you will receive an email next year with instructions containing a link to those materials and a link to the proxy voting site. Your election to receive proxy materials by email will remain in effect until you terminate it. Our Annual Report on Form 10-K accompanies these proxy materials but is not considered part of the proxy soliciting materials.

### ***How do I vote?***

You can vote either in person at the Annual Meeting or by proxy whether or not you attend the Annual Meeting. To obtain directions to attend the Annual Meeting and vote in person, please call 972-431-1000. You can vote by proxy in three ways:

by mail If you received your proxy materials by mail, you can vote by mail by using the enclosed proxy card;

by telephone In the United States and Canada, you can vote by telephone by following the instructions on the Internet or on your proxy card if you received your materials by mail; or

by Internet You can vote by Internet by following the instructions on the Notice or on your proxy card if you received your materials by mail.

If you vote by proxy, your shares will be voted at the Annual Meeting in the manner you indicate. If you sign your proxy card, but do not specify how you want your shares to be voted, they will be voted as the Board recommends.

### ***How do I attend the Annual Meeting?***

Admission to the Annual Meeting is limited to JCPenney stockholders or their proxy holders. Each stockholder will be asked to present proof of stock ownership and a valid, government-issued photo identification, such as a driver's license, before being admitted to the Annual Meeting. Proof of stock ownership may consist of the top portion of the proxy card or if shares are held in the name of a broker, bank or other nominee, an account statement or letter from the nominee indicating that the individual beneficially owned shares of JCPenney common stock on March 20, 2017, the record date for the Annual Meeting.

### ***Can I change my vote after I execute my proxy?***

You can revoke a proxy at any time prior to its exercise at the Annual Meeting. You can send in a new proxy card with a later date if you received your proxy materials by mail, or cast a new vote by telephone or Internet, or send a written notice of revocation to JCPenney's Corporate Secretary at the address on the first page of this Proxy Statement. If you attend the Annual Meeting and want to vote in person, you can request that any previously submitted proxy not be used.

### ***How do I vote my shares of JCPenney common stock in the 401(k) Savings Plans?***

Edgar Filing: J C PENNEY CO INC - Form PRE 14A

If you are a participant in the J. C. Penney Corporation, Inc. Savings, Profit-Sharing and Stock Ownership Plan (the Traditional Plan) or the J. C. Penney Corporation, Inc. Safe Harbor 401(k)

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**About the Annual Meeting**

Savings Plan (the Safe Harbor Plan), you will receive a separate voting instruction card for the shares allocated to your account in the Traditional Plan or Safe Harbor Plan. This voting instruction card will allow you to instruct State Street Bank and Trust Company, as trustee for the Traditional Plan and the Safe Harbor Plan, how to vote your shares. If you do not vote your shares in the Traditional Plan or Safe Harbor Plan, State Street Bank and Trust Company will vote them in the same proportion as those shares for which it has received voting instructions.

***Will my vote be kept confidential?***

Yes. JCPenney's policy is that all proxy or voting instruction cards, ballots and vote tabulations which identify the vote of an individual stockholder are to be kept secret. Your vote will only be disclosed:

- to allow the independent election inspectors to certify the results of the vote;
- if JCPenney is legally required to disclose your vote or is defending or asserting claims in a lawsuit;
- if there is a proxy contest involving JCPenney; or
- if you make a written comment on your proxy or voting instruction card or ballot.

***Who pays for this proxy solicitation?***

JCPenney does. In addition to soliciting proxies by mail, JCPenney may solicit proxies by telephone, personal contact and electronic means. No director, officer or employee of JCPenney will be specially compensated for these activities. JCPenney has hired Morrow Sodali LLC, a proxy solicitation firm, to assist in soliciting proxies for an estimated fee of \$12,000 plus reimbursement for reasonable expenses.

JCPenney will also reimburse brokers, fiduciaries and custodians for their costs in forwarding proxy materials to beneficial owners of JCPenney common stock.

***Could other matters be decided at the Annual Meeting?***

We do not know of any other matters that will be considered at the Annual Meeting. If any matter other than those described in this Proxy Statement arises at the Annual Meeting, the proxies will be voted at the discretion of the proxy holder.

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**Other Business Matters**

**OTHER BUSINESS MATTERS**

***Stockholder Proxy Proposal Inclusion Deadline***

Under the rules of the SEC, the date by which proposals of stockholders intended to be presented at the 2018 Annual Meeting of Stockholders (other than proxy access director nominations) must be received by the Company for inclusion in its proxy statement and form of proxy relating to that meeting is [November 24], 2017.

***Deadline for Proxy Access Director Nominations***

Under the Company's Bylaws, notice of a proxy access director nomination for the 2018 Annual Meeting of Stockholders must be received by the Company for inclusion in its proxy statement and form of proxy relating to that meeting no earlier than [October 25], 2017 and no later than [November 24], 2017.

***Stockholder Business Annual Meeting***

Stockholders who wish to introduce an item of business at an annual meeting of stockholders may do so in accordance with JCPenney's Bylaw procedures. These procedures provide, generally, that stockholders desiring to bring a proper subject of business before the meeting, must do so by a written notice timely received (not later than 90 days in advance of such meeting) by the Corporate Secretary of the Company. Any notice of intent to introduce an item of business at an annual meeting of stockholders must contain the name and address of the stockholder, a representation that the stockholder is a holder of record of JCPenney stock entitled to vote at the meeting and that the stockholder intends to appear in person or by proxy at the meeting. Notice of an item of business shall include a brief description of the proposed business and the reasons for conducting such business at the meeting as well as any material interest of the stockholder in such business.

The chair of the annual meeting may refuse to allow the transaction of any business not presented in compliance with the foregoing procedures.

***Timing***

It is currently expected that the 2018 Annual Meeting of Stockholders will be held on or about May 25, 2018, in which event any advance notice of nominations for directors and items of business (other than proposals intended to be included in the proxy statement and form of proxy, including proxy access director nominations) must be given by stockholders and received by the Secretary of the Company by February 24, 2018. The Company does, however, retain the right to change the date of the 2018 Annual Meeting of Stockholders as it, in its sole discretion, may determine. Notice of any change will be furnished to stockholders prior to the expiration of the 90-day advance notice period referred to above. Copies of the Company's Bylaws are available on our website at [www.jcpenney.com](http://www.jcpenney.com) or you may request a copy from the Corporate Secretary of the Company.

Salil R. Virkar, Secretary

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**Annex A - Amended and Restated Rights Agreement**

**ANNEX A**

J. C. PENNEY COMPANY, INC.

and

COMPUTERSHARE INC.,

as Rights Agent

Amended and Restated Rights Agreement

Dated as of January 27, 2014

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**Annex A - Amended and Restated Rights Agreement**

**EXHIBITS**

- Exhibit A -- Certificate of Designation, Preferences and Rights of Series C Junior Participating Preferred Stock
- Exhibit B -- Form of Rights Certificates
- Exhibit C -- Form of Amended Summary of Rights

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**Annex A - Amended and Restated Rights Agreement**

**AMENDED AND RESTATED RIGHTS AGREEMENT**

AMENDED AND RESTATED RIGHTS AGREEMENT, dated as of January 27, 2014 (the Agreement ), between J. C. Penney Company, Inc., a Delaware corporation (the Company ), and Computershare Inc., a Delaware corporation (the Rights Agent ).

**W I T N E S S E T H:**

WHEREAS, the Company and the Rights Agent previously entered into the Rights Agreement, dated as of August 22, 2013 (the Original Rights Agreement );

WHEREAS, in connection with the Original Rights Agreement, on August 21, 2013 (the Rights Dividend Declaration Date ), the Board of Directors of the Company (the Board ) authorized and declared a dividend distribution of one Right (as hereinafter defined) for each share of Common Stock (as hereinafter defined) outstanding at the close of business on September 3, 2013 (the Record Date ), and has authorized the issuance of one Right (as such number may hereinafter be adjusted pursuant to the provisions of Section 11(p) hereof) for each share of Common Stock issued (whether as an original issuance or from the Company s treasury) between the Record Date and the Distribution Date (as hereinafter defined) and in certain other circumstances provided herein, each Right initially representing the right to purchase one one-thousandth of a share of the Preferred Stock of the Company having the rights, powers and preferences set forth in the Certificate of Designation, Preferences and Rights filed by the Company with the Secretary of State of the State of Delaware on August 22, 2013, a copy of which is attached as Exhibit A to this Agreement, upon the terms and subject to the conditions set forth in the Original Rights Agreement (the Rights ); and

WHEREAS, the Company has generated certain Tax Benefits (as hereinafter defined) for United States federal income tax purposes, such Tax Benefits may potentially provide valuable benefits to the Company, the Company desires to avoid an ownership change within the meaning of Section 382 of the Internal Revenue Code of 1986, as amended (the Code ), and the Treasury Regulations (as hereinafter defined) promulgated thereunder, and thereby preserve its ability to utilize such Tax Benefits, and, in furtherance of such objective, the Company desires to amend and restate the terms of the Original Rights Agreement.

NOW, THEREFORE, in consideration of the premises and the mutual agreements herein set forth, the parties hereby agree as follows:

Section 1. Certain Definitions. For purposes of this Agreement, the following terms have the meanings indicated:

(a) Acquiring Person shall mean any Person who or which, together with all Affiliates and Associates of such Person, shall be the Beneficial Owner of 4.9% or more of the shares of Common Stock then outstanding, but shall not include:

(i) the Company;

(ii) any Subsidiary of the Company;

(iii) any employee benefit plan of the Company, or of any Subsidiary of the Company, or any Person organized, appointed or established by the Company for or pursuant to the terms of any such plan;

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**Annex A - Amended and Restated Rights Agreement**

(iv) any Person who or which becomes the Beneficial Owner of 4.9% or more of the shares of Common Stock then outstanding solely as a result of (A) a reduction in the number of shares of Common Stock outstanding due to the repurchase of shares of Common Stock by the Company (or any Subsidiary of the Company, any employee benefit plan of the Company or of any Subsidiary of the Company, or any Person organized, appointed or established by the Company for or pursuant to the terms of any such plan) or (B) a stock dividend, stock split, reverse stock split or similar transaction effected by the Company, in each case unless and until such Person acquires Beneficial Ownership of additional shares of Common Stock, except solely as the result of any subsequent transaction described in clause (A) or (B) of this Section 1(a)(iv);

(v) any Person who or which, within ten (10) Business Days of being requested by the Company to advise it regarding the same, certifies to the Company that such Person acquired shares of Common Stock in excess of 4.899% inadvertently or without knowledge of the terms of the Rights and who or which, together with all Affiliates and Associates, thereafter within ten (10) Business Days following such certification reduces such Person's, together with its Affiliates and Associates', Beneficial Ownership to less than 4.9% of the shares of Common Stock then outstanding; provided, however, that (x) if the Person requested to so certify fails to do so within ten (10) Business Days or breaches or violates such certification, then such Person shall become an Acquiring Person immediately after such ten (10) Business Day period or such breach or violation or (y) if the Person together with its Affiliates and Associates fails to reduce Beneficial Ownership to less than 4.9% within ten (10) Business Days following such certification, then such Person shall become an Acquiring Person immediately after such ten (10) Business Day period;

(vi) any Exempt Person, but only for so long as such Exempt Person, together with such Person's Affiliates and Associates, does not become the Beneficial Owner of any additional shares of Common Stock while such Person is an Exempt Person, except solely as the result of any transaction described in clause (A) or (B) of Section 1(a)(iv); or

(vii) any Person that the Board has affirmatively determined in its sole discretion, prior to the Distribution Date, in light of the intent and purposes of this Agreement or other circumstances facing the Company, shall not be deemed an Acquiring Person, for so long as such Person complies with any limitations or conditions required by the Board in making such determination.

(b) Act shall mean the Securities Act of 1933, as amended.

(c) Adjustment Shares shall have the meaning set forth in Section 11(a)(ii) hereof.

(d) Affiliate and Associate shall have the respective meanings ascribed to such terms in Rule 12b-2 of the General Rules and Regulations under the Exchange Act and, to the extent not included within the foregoing, shall also include with respect to any Person, any other Person whose shares of Common Stock would be deemed to be constructively owned by such first Person, owned by a single entity with respect to such first Person as defined in Section 1.382-3(a)(1) of the Treasury Regulations, or otherwise aggregated with shares owned by such first Person, pursuant to the provisions of Section 382 of the Code and the Treasury Regulations promulgated thereunder.

(e) Agreement shall have the meaning set forth in the preamble to this Agreement.

(f) Amended Summary of Rights shall have the meaning set forth in Section 3(b) hereof.





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(g) A Person shall be deemed the Beneficial Owner of, and shall be deemed to beneficially own :

(i) any securities that such Person or any of such Person's Affiliates or Associates owns directly or has the right to acquire (whether such right is exercisable immediately, or only after the passage of time, compliance with regulatory requirements, the fulfillment of a condition, or otherwise) pursuant to any agreement, arrangement or understanding, or upon the exercise of conversion rights, exchange rights, other rights, warrants or options, or otherwise; provided, however, that a Person shall not be deemed the Beneficial Owner of, or to beneficially own, (A) any shares of Common Stock by virtue of owning securities or other interests (including rights, options or warrants) that are convertible or exchangeable into, or exercisable for, such shares of Common Stock, except to the extent that upon the issuance, acquisition or transfer of such securities or other interests, such securities or other interests would be treated as exercised under Section 1.382-4(d) or other applicable sections of the Treasury Regulations, (B) securities tendered pursuant to a tender offer or exchange offer made by or on behalf of such Person or any of such Person's Affiliates or Associates until such tendered securities are accepted for purchase or exchange or (C) securities issuable upon exercise of Rights;

(ii) any securities that such Person or any of such Person's Affiliates or Associates (A) directly or indirectly has the right to vote or dispose of, alone or in concert with others, or (B) beneficially owns, directly or indirectly, for purposes of Section 13(d) of the Exchange Act and Rule 13d-3 of the General Rules and Regulations under the Exchange Act, including, with respect to both clause (A) and clause (B), pursuant to any agreement, arrangement or understanding (whether or not in writing), but only if the effect of such agreement, arrangement or understanding is to treat such Persons as an entity under Section 1.382-3(a)(1) of the Treasury Regulations; provided that a Person shall not be deemed the Beneficial Owner of, or to beneficially own, any security under this subparagraph (ii) on account of an agreement, arrangement or understanding to vote such security that (X) arises solely from a revocable proxy given to such Person or any of such Person's Affiliates or Associates in response to a public proxy solicitation made pursuant to and in accordance with the applicable provisions of the General Rules and Regulations under the Exchange Act, and (Y) is not also then reportable on Schedule 13D under the Exchange Act (or any comparable or successor report); and

(iii) any securities that are beneficially owned, directly or indirectly, by any other Person, if such Person or any of such Person's Affiliates or Associates has any agreement, arrangement or understanding (whether or not in writing) with such other Person or any of such other Person's Affiliates or Associates for the purpose of acquiring, holding, voting (other than voting pursuant to a revocable proxy as described in the proviso to Section 1(g)(ii) hereof) or disposing of any securities of the Company, but only if the effect of such agreement, arrangement or understanding is to treat such Persons as an entity under Section 1.382-3(a)(1) of the Treasury Regulations.

Notwithstanding the foregoing, a Person shall be deemed the Beneficial Owner of, and shall be deemed to beneficially own, securities if such Person would be deemed constructively to own such securities pursuant to Sections 1.382-2T(h) and 1.382-4(d) of the Treasury Regulations, such Person owns such securities pursuant to a coordinated acquisition treated as a single entity as defined in Section 1.382-3(a)(1) of the Treasury Regulations, or such securities are otherwise aggregated with securities owned by such Person, pursuant to the provisions of Section 382 of the Code and the Treasury Regulations promulgated thereunder. Nothing in this Section 1(g) shall cause a Person engaged in business as an underwriter of securities to be the Beneficial Owner of, or to beneficially own, any securities acquired through such Person's participation in good faith in a firm commitment underwriting until the expiration of forty (40) days after the date of such acquisition, and then only if such securities continue to be owned by such Person at such expiration of forty (40) days.

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**Annex A - Amended and Restated Rights Agreement**

The term **Beneficial Ownership** shall have a corresponding meaning.

(h) **Board** shall have the meaning set forth in the recitals of this Agreement.

(i) **Business Day** shall mean any day other than a Saturday, Sunday or a day on which banking institutions in the State of New York or the State of New Jersey are authorized or obligated by law or executive order to close.

(j) **close of business** on any given date shall mean 5:00 P.M., New York, New York time, on such date; provided, however, that if such date is not a Business Day, it shall mean 5:00 P.M., New York, New York time, on the next succeeding Business Day.

(k) **Code** shall have the meaning set forth in the recitals to this Agreement.

(l) **Common Stock** shall mean the common stock of the Company of \$0.50 par value, except that **Common Stock** when used with reference to any Person other than the Company shall mean the capital stock of such Person with the greatest voting power, or the equity securities or other equity interest having power to control or direct the management, of such Person (or, if such Person is a Subsidiary of another Person, the Person or Persons that ultimately control such first mentioned Person).

(m) **Common Stock Equivalents** shall have the meaning set forth in Section 11(a)(iii) hereof.

(n) **Company** shall have the meaning set forth in the preamble to this Agreement.

(o) **Current Market Price** shall have the meaning set forth in Section 11(d) hereof.

(p) **Current Value** shall have the meaning set forth in Section 11(a)(iii) hereof.

(q) **Distribution Date** shall have the meaning set forth in Section 3(a) hereof.

(r) **Equivalent Preferred Stock** shall have the meaning set forth in Section 11(b) hereof.

(s) **Exempt Person** shall mean any Person who or which, together with all Affiliates and Associates of such Person, is, as of the Exempt Time, the Beneficial Owner of 4.9% or more of the shares of Common Stock then outstanding. Any Exempt Person who, together with such Person's Affiliates and Associates, after the Exempt Time becomes the Beneficial Owner of less than 4.9% of the shares of Common Stock then outstanding shall cease to be an Exempt Person and shall be subject to all the provisions of this Agreement in the same manner as any Person who is not and was not an Exempt Person.

(t) **Exempt Time** shall mean the time of the first public announcement of adoption of this Agreement.

(u) **Exchange Act** shall mean the Securities Exchange Act of 1934, as amended.

(v) **Exchange Ratio** shall have the meaning set forth in Section 24(a) hereof.

(w) Expiration Date shall have the meaning set forth in Section 7(a) hereof.

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**Annex A - Amended and Restated Rights Agreement**

- (x) Final Expiration Date shall have the meaning set forth in Section 7(a) hereof.
- (y) NASDAQ shall have the meaning set forth in Section 11(d)(i) hereof.
- (z) NOLs shall mean the Company's net operating loss carryforwards.
- (aa) NYSE shall have the meaning set forth in Section 11(d)(i) hereof.
- (bb) Original Rights Agreement shall have the meaning set forth in the recitals of this Agreement.
- (cc) Original Summary of Rights shall have the meaning set forth in Section 3(b) hereof.
- (dd) Person shall mean any individual, firm, corporation, partnership, limited liability company, limited liability partnership, trust, syndicate or other entity, or group of persons making a coordinated acquisition of Common Stock or otherwise treated as an entity within the meaning of Section 1.382-3(a)(1) of the Treasury Regulations or otherwise, and also includes any successor (by merger or otherwise) of any such individual or entity.
- (ee) Preferred Stock shall mean shares of Series C Junior Participating Preferred Stock, without par value, of the Company, and, to the extent that there are not a sufficient number of shares of Series C Junior Participating Preferred Stock authorized to permit the full exercise of the Rights, any other series of preferred stock of the Company designated for such purpose containing terms substantially similar to the terms of the Series C Junior Participating Preferred Stock.
- (ff) Principal Party shall have the meaning set forth in Section 13(b) hereof.
- (gg) Purchase Price shall have the meaning set forth in Section 4(a) hereof.
- (hh) Record Date shall have the meaning set forth in the recitals of this Agreement.
- (ii) Redemption Price shall have the meaning set forth in Section 23(a) hereof.
- (jj) Rights shall have the meaning set forth in the recitals of this Agreement.
- (kk) Rights Agent shall have the meaning set forth in the preamble of this Agreement.
- (ll) Rights Certificates shall have the meaning set forth in Section 3(a) hereof.
- (mm) Rights Dividend Declaration Date shall have the meaning set forth in the recitals of this Agreement.
- (nn) Section 11(a)(ii) Event shall mean any event described in Section 11(a)(ii) hereof.
- (oo) Section 11(a)(ii) Trigger Date shall have the meaning set forth in Section 11(a)(iii) hereof.
- (pp) Section 13 Event shall mean any event described in clauses (x), (y) or (z) of Section 13(a) hereof.

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**Annex A - Amended and Restated Rights Agreement**

(qq) Spread shall have the meaning set forth in Section 11(a)(iii) hereof.

(rr) Stock Acquisition Date shall mean the first date of public announcement (which, for purposes of this definition, shall include a report filed or amended pursuant to Section 13(d) under the Exchange Act) by the Company or an Acquiring Person that an Acquiring Person has become such.

(ss) Subsidiary shall mean, with reference to any Person, any corporation or other entity of which an amount of securities or other ownership interests having ordinary voting power sufficient to elect at least a majority of the directors or other Persons having similar functions of such corporation or other entity are at the time, directly or indirectly, beneficially owned, or otherwise controlled by such Person.

(tt) Substitution Period shall have the meaning set forth in Section 11(a)(iii) hereof.

(uu) Tax Benefits shall mean the net operating loss carryovers, capital loss carryovers, general business credit carryovers, alternative minimum tax credit carryovers and foreign tax credit carryovers, as well as any loss or deduction attributable to a net unrealized built-in loss within the meaning of Section 382 of the Code and the Treasury Regulations promulgated thereunder, of the Company or any of its Subsidiaries.

(vv) Trading Day shall have the meaning set forth in Section 11(d)(i) hereof.

(ww) Treasury Regulations shall mean the final and temporary (but not proposed) tax regulations promulgated under the Code, as such regulations may be amended from time to time.

(xx) Triggering Event shall mean any Section 11(a)(ii) Event or any Section 13 Event.

Section 2. Appointment of Rights Agent. The Company hereby appoints the Rights Agent to act as agent for the Company in accordance with the express terms and conditions hereof (and no implied terms or conditions), and the Rights Agent hereby accepts such appointment. The Company may from time to time appoint such co-rights agents as it may deem necessary or desirable. The Rights Agent shall have no duty to supervise, and in no event shall be liable for, the acts or omissions of any such co-rights agent.

Section 3. Issuance of Rights Certificates.

(a) Until the earlier of (i) the close of business on the tenth (10<sup>th</sup>) Business Day after the Stock Acquisition Date (or, if the tenth (10<sup>th</sup>) Business Day after the Stock Acquisition Date occurs before the Record Date, the close of business on the Record Date), or (ii) the close of business on the tenth (10<sup>th</sup>) Business Day (or such later date as the Board shall determine) after the date that a tender or exchange offer by any Person (other than the Company, any Subsidiary of the Company, any employee benefit plan of the Company or of any Subsidiary of the Company, or any Person organized, appointed or established by the Company for or pursuant to the terms of any such plan) is first published or sent or given within the meaning of Rule 14d-2(a) of the General Rules and Regulations under the Exchange Act, if upon consummation thereof, such Person would become an Acquiring Person (the earlier of (i) and (ii) being herein referred to as the Distribution Date), (x) the Rights will be evidenced (subject to the provisions of paragraphs (b) and (c) of this Section 3) by the certificates evidencing the Common Stock registered in the names of the holders of the Common Stock (which certificates evidencing the Common Stock shall be deemed also to be certificates evidencing the Rights)

and not by separate certificates (or, for shares participating in the direct registration system, by

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notations in the respective book entry accounts for the Common Stock), and (y) the Rights will be transferable only in connection with the transfer of the underlying shares of Common Stock (including a transfer to the Company). The Company promptly shall notify the Rights Agent in writing upon the occurrence of the Distribution Date and, if such notification is given orally, the Company shall confirm the same in writing on or prior to the next following Business Day. Until such notice is received by the Rights Agent, the Rights Agent may presume conclusively for all purposes that the Distribution Date has not occurred. As soon as practicable after the Distribution Date and receipt by the Rights Agent of notice of such occurrence, the Rights Agent, if requested by the Company and provided with all necessary information and documentation, will, subject to the following sentence, send by first-class, insured, postage prepaid mail (or such other means as may be selected by the Company and not reasonably objected to by the Rights Agent), to each record holder of the Common Stock as of the close of business on the Distribution Date, at the address of such holder then shown on the records of the Company or the transfer agent or the registrar for the Common Stock, one or more rights certificates, in substantially the form of Exhibit B hereto (the Rights Certificates ), duly executed and countersigned in the manner provided for in Section 5(a) hereof, evidencing one Right for each share of Common Stock so held, subject to adjustment as provided herein. To the extent that a Section 11(a)(ii) Event has also occurred, the Company may implement such procedures, as it deems appropriate in its sole discretion, to minimize the possibility that Rights are received by Persons whose Rights would be null and void under Section 7(e) hereof. In the event that an adjustment in the number of Rights per share of Common Stock has been made pursuant to Section 11(p) hereof, at the time of distribution of the Rights Certificates, the Company shall make the necessary and appropriate rounding adjustments (in accordance with Section 14(a) hereof) so that Rights Certificates representing only whole numbers of Rights are distributed and cash is paid in lieu of any fractional Rights. As of and after the Distribution Date, the Rights will be evidenced solely by such Rights Certificates and may be transferred by the transfer of the Rights Certificates as permitted hereby, separately and apart from any transfer of one or more shares of Common Stock, and the holders of such Rights Certificates as listed in the records of the Company or any transfer agent or registrar for the Rights shall be the record holders thereof.

(b) In connection with the adoption of the Original Rights Agreement, the Company made available a copy of a Summary of Rights in substantially the form attached as Exhibit C to the Original Rights Agreement (the Original Summary of Rights ) to any holder of Rights who so requested from time to time prior to the date hereof, which Original Summary of Rights has been amended in substantially the form attached hereto as Exhibit C (the Amended Summary of Rights ). The Company will make available, as promptly as practicable following the date hereof, a copy of the Amended Summary of Rights to any holder of Rights who may so request from time to time prior to the Expiration Date. With respect to certificates evidencing the Common Stock outstanding as of the Record Date, or issued subsequent to the Record Date, unless and until the Distribution Date shall occur, the Rights will be evidenced by the certificates for the Common Stock (or, in the case of shares reflected on the direct registration system, the notations in the book-entry account system of the transfer agent for the Common Stock) and the registered holders of the Common Stock shall also be the registered holders of the associated Rights. Until the earlier of the Distribution Date or the Expiration Date, the transfer of any shares of Common Stock in respect of which Rights have been issued shall also constitute the transfer of the Rights associated with such shares of Common Stock. Notwithstanding anything to the contrary set forth in this Agreement, upon the effectiveness of a redemption pursuant to Section 23 hereof or an exchange pursuant to Section 24 hereof, the Company shall not thereafter issue any additional Rights and, for the avoidance of doubt, no Rights shall be attached to or shall be issued with any shares of Common Stock (including any shares of Common Stock issued pursuant to an exchange) at any time thereafter.

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**Annex A - Amended and Restated Rights Agreement**

(c) Rights shall be issued in respect of all shares of Common Stock that are issued (whether originally issued or delivered from the Company's treasury) after the Record Date but prior to the earlier of the Distribution Date or the Expiration Date or, in certain circumstances provided in Section 22 hereof, after the Distribution Date. Certificates representing such shares of Common Stock shall also be deemed to be certificates for Rights, and shall bear a legend in substantially the following form if such certificates are issued after the Exempt Time but prior to the earlier of the Distribution Date or the Expiration Date:

This certificate also evidences and entitles the holder hereof to certain Rights as set forth in the Rights Agreement between J. C. Penney Company, Inc. (the Company) and the Rights Agent thereunder (the Rights Agent) dated as of August 22, 2013, as originally executed and as it may be amended or restated from time to time (the Rights Agreement), the terms of which are hereby incorporated herein by reference and a copy of which is on file at the principal offices of the Company. Under certain circumstances, as set forth in the Rights Agreement, such Rights will be evidenced by separate certificates and will no longer be evidenced by this certificate. The Company will mail to the holder of this certificate a copy of the Rights Agreement, as in effect on the date of mailing, without charge, promptly after receipt of a written request therefor. Under certain circumstances set forth in the Rights Agreement, Rights issued to, or held by, any Person who is, was or becomes an Acquiring Person or any Affiliate or Associate thereof (as such terms are defined in the Rights Agreement), whether currently held by or on behalf of such Person or by any subsequent holder, may become null and void.

With respect to such certificates containing the foregoing legend, until the earlier of (i) the Distribution Date or (ii) the Expiration Date, the Rights associated with the Common Stock represented by such certificates shall be evidenced by such certificates alone and registered holders of Common Stock shall also be the registered holders of the associated Rights, and the transfer of any of such certificates shall also constitute the transfer of the Rights associated with the Common Stock represented by such certificates. Similarly, during such time periods, transfers of shares participating in the direct registration system shall also be deemed to be transfers of the associated Rights. In the case of any shares participating in the direct registration system, the Company shall cause the transfer agent for the Common Stock to include on each direct registration account statement with respect thereto issued prior to the Distribution Date a notation to the effect that the Company will mail to the stockholder a copy of the Agreement, as in effect on the date of mailing, without charge, promptly after receipt of a written request therefor and that the recipient of the statement, as a holder of shares of Common Stock, may have certain rights thereunder. In the event that shares of the Common Stock are not represented by certificates, references in this Agreement to certificates shall be deemed to refer to the notations in the book-entry accounts reflecting ownership of such shares.

Section 4. Form of Rights Certificates.

(a) The Rights Certificates (and the forms of election to purchase and of assignment to be printed on the reverse thereof) shall each be substantially in the form set forth in Exhibit B hereto and may have such changes or marks of identification or designation and such legends, summaries or endorsements printed thereon as the Company may deem appropriate and as are not inconsistent with the provisions of this Agreement and which do not affect the rights, duties, liabilities or responsibilities of the Rights Agent, or as may be required to comply with any applicable law or with any rule or regulation made pursuant thereto or with any applicable rule or regulation of any stock exchange on which the Rights may from time to time be listed, or to conform to usage. Subject to the provisions of Section 11 and Section 22 hereof, the Rights Certificates, whenever distributed, shall be dated as of the Record Date and on their face shall entitle the holders thereof to purchase such number of one one-thousandths of a share of Preferred Stock as shall

be set forth therein at the price set forth therein

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**Annex A - Amended and Restated Rights Agreement**

(such exercise price per one one-thousandths of a share, the Purchase Price ), but the amount and type of securities purchasable upon the exercise of each Right and the Purchase Price thereof shall be subject to adjustment as provided herein.

(b) Any Rights Certificate issued pursuant to Section 3(a), Section 11(i) or Section 22 hereof that represents Rights beneficially owned by: (i) an Acquiring Person or any Associate or Affiliate of an Acquiring Person, (ii) a transferee of an Acquiring Person (or of any Associate or Affiliate of an Acquiring Person) who becomes a transferee after the Acquiring Person becomes such, or (iii) a transferee of an Acquiring Person (or of any Associate or Affiliate of an Acquiring Person) who becomes a transferee prior to or concurrently with the Acquiring Person becoming such and receives such Rights pursuant to either (A) a transfer (whether or not for consideration) from the Acquiring Person (or an Associate or Affiliate of the Acquiring Person) to holders of equity interests in such Acquiring Person or to any Person with whom the Acquiring Person (or an Associate or Affiliate of the Acquiring Person) has any continuing agreement, arrangement or understanding (whether or not in writing) regarding the transferred Rights or (B) a transfer that the Board has determined is part of a plan, arrangement or understanding (whether or not in writing) that has as a primary purpose or effect the avoidance of Section 7(e) hereof, and any Rights Certificate issued pursuant to Section 6 or Section 11 hereof upon transfer, exchange, replacement or adjustment of an