

J C PENNEY CO INC
Form DEF 14A
March 31, 2009
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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 Pursuant to §240.14a-12

J. C. Penney Company, Inc.

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(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

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Myron E. Ullman, III

Chairman of the Board

and Chief Executive Officer

April 3, 2009

Dear Stockholders:

On behalf of your Board of Directors and management, I invite you to attend JCPenney's Annual Meeting of Stockholders. The meeting will be held on Friday, May 15, 2009, at 10:30 A.M., local time, at JCPenney's Home Office located at 6501 Legacy Drive, Plano, Texas 75024.

You will find information regarding the matters to be voted on at the meeting in the formal Notice of Meeting and Proxy Statement which are included on the following pages.

We appreciate your continued support of JCPenney.

Any stockholder having a disability requiring special assistance who would like to attend the Annual Meeting should call the Corporate Secretary of the Company at (972) 431-1000 and reasonable accommodations will be made to meet such stockholder's needs.

J. C. Penney Company, Inc. P.O. Box 10001 Dallas, TX 75301

Home Office 6501 Legacy Drive Plano, TX 75024-3698

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J. C. PENNEY COMPANY, INC.

6501 Legacy Drive

Plano, Texas 75024-3698

J. C. PENNEY COMPANY, INC.

Notice of 2009 Annual Meeting of Stockholders

Date and Time: Friday, May 15, 2009

10:30 A.M., local time

Place: JCPenney Home Office

6501 Legacy Drive

Plano, Texas 75024-3698

- Business:**
1. To elect twelve 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 January 30, 2010;
 3. To approve the adoption of the J. C. Penney Company, Inc. 2009 Long-Term Incentive Plan, which has been adopted by the Board of Directors, subject to stockholder approval;
 4. To consider a stockholder proposal relating to adoption of principles for health care reform; and
 5. 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 16, 2009.

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 completing, signing, dating, and returning your completed proxy card, by telephone or over the Internet. 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. 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 2009 Annual Meeting of

Stockholders to be held on May 15, 2009.

The Notice of Annual Meeting, Proxy Statement, Annual Report on Form 10-K for the fiscal year ended January 31, 2009 and the 2008 Summary Annual Report are available at www.proxyvote.com.

Janet L. Dhillon, Secretary

Plano, Texas

April 3, 2009

YOUR VOTE IS IMPORTANT

PLEASE SIGN, DATE, & RETURN YOUR PROXY CARD OR

VOTE BY TELEPHONE OR INTERNET

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2009 PROXY STATEMENT

This proxy statement and the accompanying materials are being made available to JCPenney stockholders beginning on or about April 3, 2009. In this proxy statement, you will find information on the matters to be presented at the Annual Meeting and information to assist you in voting your shares.

ABOUT THE ANNUAL MEETING

Who is soliciting my vote?

JCPenney's Board of Directors is soliciting your vote at the 2009 Annual Meeting of Stockholders.

What will I be voting on?

You will be voting on:

- Election of twelve directors nominated by the Board of Directors;
- Ratification of the appointment of KPMG LLP as JCPenney's independent auditor for the fiscal year ending January 30, 2010;
- Approval of the 2009 Long-Term Incentive Plan;
- A stockholder proposal relating to adoption of principles for health care reform; and
- Any other business that may properly come before the meeting.

What are the Board of Directors' voting recommendations?

The Board of Directors 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 January 30, 2010, For the approval of the 2009 Long-Term Incentive Plan, and Against the stockholder proposal relating to adoption of principles for health care reform.

Who is entitled to vote?

All stockholders who owned JCPenney common stock at the close of business on the record date, March 16, 2009, 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 16, 2009, JCPenney had 222,258,048 shares of common stock outstanding and entitled to vote.

How many votes must be present to hold the Annual Meeting?

A majority of the outstanding shares of JCPenney common stock as of the record date, or 111,129,025 shares, must be present at the Annual Meeting in order to hold the meeting and conduct business. This is called a quorum. 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 stockholders. Abstentions and broker non-votes are counted only for purposes of determining the presence of a quorum.

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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 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 of Directors, 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, approval of the 2009 Long-Term Incentive Plan and the stockholder proposal each require the affirmative vote of a majority of the shares of JCPenney common stock outstanding as of the record date to be approved. If you abstain from voting on 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* that proposal. Broker non-votes will also have the same effect as a vote *against* that 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 Securities and Exchange Commission (SEC), rather than mailing a printed copy of our proxy materials to each stockholder of record, we may now send some or all of our stockholders a Notice of Internet Availability of Proxy Materials (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
- 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. The Summary Annual Report and the Form 10-K accompany these proxy materials but are 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;

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by telephone In the United States and Canada, you can vote by telephone by following the instructions on the Notice 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 of Directors 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 16, 2009, 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 cover 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 Savings Plan?

If you are a participant in the J. C. Penney Corporation, Inc. Savings, Profit-Sharing and Stock Ownership Plan (the Savings Plan), you will receive a separate voting instruction card for the shares allocated to your account in the Savings Plan. This voting instruction card will allow you to instruct State Street Bank and Trust Company, as trustee for the Savings Plan, how to vote your shares. If you do not vote your shares in the Savings 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 the Company; 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 & Co., LLC, a proxy solicitation firm, to assist in soliciting proxies for an estimated fee of \$30,000 plus reimbursement for reasonable expenses.

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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.

CORPORATE GOVERNANCE

For more than 100 years, JCPenney has been serving American consumers by building our business on timeless values. That is our history. That is our future. Since James Cash Penney opened his first Golden Rule Store in 1902, our goal has been to serve the public, as nearly as we can, to its complete satisfaction. Building on this heritage, we adopted our WINNING TOGETHER principles, which are set forth on the outside back cover of this proxy statement and include valuing, developing, and rewarding the contributions of all Associates; acting only with the highest ethical standards; achieving excellence in our work, products, and services; and caring about and being involved in our communities. We do this for our customers and our stockholders.

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 and our Policy on Review and Consideration of Related Person Transactions;
- Restated Certificate of Incorporation, as amended;
- Bylaws, as amended;
- Audit 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.

You can access each of these documents on our website at www.jcpenney.net 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

This document sets forth the Company's primary principles and policies regarding corporate governance, which are the foundation of our commitment to best practices. You can access our Corporate Governance Guidelines at www.jcpenney.net. The Guidelines are reviewed annually by the Corporate Governance Committee and 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 retirement;

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director resignations upon change of principal employment;
directors' outside directorships and outside audit committee service;
Board committees;
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;
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;
management succession and CEO evaluation; and
annual self-assessments of the Board and each of the Audit, Corporate Governance, and Human Resources and Compensation Committees.

Policies and Procedures with Respect to Related Person Transactions

The Board of Directors 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, interest, or relationship that would create, or might appear to others to create, a conflict with the interests of JCPenney.

Our written Policy on Review and Consideration of Related Person Transactions (Policy) is included as Appendix B to our Corporate Governance Guidelines. For purposes of current SEC rules as well as our 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 (a) 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, (b) any person who is known to be the beneficial owner of more than 5% of any class of the Company's voting securities, and (c) 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, under our Policy, 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 New York Stock Exchange (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 our Corporate Governance Guidelines, which can be accessed at www.jcpenny.net.

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;

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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 \$1,000,000 or 2% of that company's consolidated gross revenues;

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 \$1,000,000 or 2% of the charity's gross revenues.

The Board has reviewed each director's independence for fiscal 2009. Applying the standards listed above as well as the requirements of the NYSE, the Board has determined that each of the directors, except for Myron E. Ullman, III, the Company's Chairman and Chief Executive Officer, and Ken C. Hicks, the Company's President and Chief Merchandising Officer, is independent.

Meeting Attendance

During fiscal 2008, the Board held six meetings and committees of the Board held a total of 22 meetings. Each director attended at least 75% of the total number of meetings of the Board and committees on which he or she served. The Board currently has six meetings scheduled for fiscal 2009.

All directors are strongly encouraged to attend the Annual Meeting, but we do not have a formal attendance requirement. In 2008, 10 of the 12 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 presiding director of these sessions is currently Thomas J. Engibous, whose term as presiding director expires on May 21, 2010. The non-employee, independent directors will select the next director to serve as presiding director upon expiration of Mr. Engibous' term.

Communications with the Board of Directors

Any Company stockholder or other interested party who wishes to communicate with the Board of Directors or with an individual director may direct such communications by telephone to 1-800-527-0063, by facsimile to 972-431-1977, by email to jcpdirectors@jcpenny.com, or by writing to:

Corporate Secretary

J. C. Penney Company, Inc.

P.O. Box 10001

Dallas, TX 75301

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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 Corporate Governance Committee of 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 of Directors. Any such communication may be made on an anonymous basis and may be reported to the Audit Committee through the Company's Director of Auditing by calling 1-800-527-0063, by website at www.jcpilene.com or by writing to:

Director of Auditing

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 Director of Auditing, 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 Director of Auditing will prepare a periodic summary report of all such communications for the Audit Committee.

Director Nominee Qualifications and Process

Our process for nominating candidates for election to the Board is designed to identify and recruit high caliber individuals to serve as directors of the Company. 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. The Corporate Governance Committee has engaged in the past, and expects to continue to engage, one or more search firms to assist in the identification and recruitment of director candidates.

As provided in the Company's Corporate Governance Guidelines, nominees for director will be 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.

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In connection with the selection of nominees for director, due consideration is given to the Board's overall balance of diversity of perspectives, backgrounds and experiences. The Corporate Governance Committee takes into account the current composition and capabilities of serving Board members, as well as additional capabilities considered necessary or desirable in light of existing Company needs.

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

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 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-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 of the information required to conduct an evaluation.

BOARD COMMITTEES

The Board of Directors 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.

Audit Committee

The Audit Committee's responsibilities include the selection and retention of the independent auditor for the annual audit of the Company's consolidated financial statements and the approval of audit fees and non-audit services and fees paid to the independent auditor. The Committee reviews the independent auditor's strategy and plan, scope, audit results, performance and independence, internal audit reports on the adequacy of internal controls, the Company's ethics program, status of significant legal matters, the scope of the internal auditor's plans and budget and results of its audits, and the effectiveness of the Company's program for correcting audit findings. The Committee also participates in the certification process relating to the filing of certain periodic reports pursuant to the Securities Exchange Act of 1934, as amended. A copy of the Audit Committee's Charter is available at the Company's website, www.jcpenney.net. 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.

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During fiscal 2008, this Committee held seven meetings. Its current members are Thomas J. Engibous, Leonard H. Roberts, Mary Beth West, Javier G. Teruel, and Kent B. Foster, who serves as its Chair. The Board of Directors 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 Securities Exchange Act of 1934, as amended, and the NYSE.

Corporate Governance Committee

The Corporate Governance Committee performs the functions of a nominating committee, considers matters of corporate governance and reviews developments in the governance area as they affect relations between the Company and its stockholders. It also develops and recommends to the Board corporate governance principles and practices for the Company and makes recommendations to the Board with respect to the size, composition, organization and responsibilities of the Board and its directors, the qualifications of directors, candidates for election as directors, the compensation of directors, annual independence determinations, and the annual performance self-assessment process by the Board and each of the Audit, Corporate Governance, and Human Resources and Compensation Committees. A copy of the Corporate Governance Committee's Charter, the Company's Corporate Governance Guidelines, and Standards and Procedures for Director Nominations are available on the Company's website at www.jcpenney.net.

During fiscal 2008, this Committee met four times. Its current members are Colleen C. Barrett, M. Anthony Burns, Burl Osborne, R. Gerald Turner, and Maxine K. Clark, who serves as its Chair.

Finance Committee

The Finance Committee is responsible for reviewing the Company's financial policies, strategies, and capital structure. A copy of the Company's Finance Committee Charter is available on the Company's website at www.jcpenney.net.

During fiscal 2008, this Committee met two times. Its current members are Kent B. Foster, Leonard H. Roberts, Javier G. Teruel, Mary Beth West, and Thomas J. Engibous, who serves as its Chair.

Human Resources and Compensation Committee

The Human Resources and Compensation Committee's responsibilities include reviewing and administering the Company's annual and long-term incentive compensation plans, overseeing the administration and operation of certain of the Company's retirement and welfare plans, taking action or making recommendations with respect to the compensation of executive officers, including making a non-binding recommendation to the Committee of the Whole regarding the CEO's compensation level, and reviewing succession plans for key Company executives, including the CEO. In addition, its responsibilities include reviewing 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. A copy of the Human Resources and Compensation Committee's Charter is available on the Company's website at www.jcpenney.net. See also this Committee's report on page 31. 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 17 and Director Compensation for Fiscal 2008 beginning on page 50.

During fiscal 2008, this Committee met seven times. Its current members are Colleen C. Barrett, M. Anthony Burns, Maxine K. Clark, R. Gerald Turner, and Burl Osborne, who serves as its Chair.

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Committee of the Whole

The Committee of the Whole assists the Board in discharging its responsibilities relating to the setting of performance goals and objectives, the evaluation of performance in light of those goals and objectives, and the setting of compensation for the Company's CEO. A copy of the Committee of the Whole's Charter is available on the Company's website at www.jcpenney.net. See also Compensation Discussion and Analysis beginning on page 17.

During fiscal 2008, this Committee met two times. The Committee is composed solely of the independent members of the Board. Its current members are Colleen C. Barrett, M. Anthony Burns, Maxine K. Clark, Kent B. Foster, Burl Osborne, Leonard H. Roberts, Javier G. Teruel, R. Gerald Turner, Mary Beth West, and Thomas J. Engibous, who serves as its Chair.

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.

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 Associates nor former or current officers of the Company. There is not, nor was there during fiscal 2008, 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 Securities Exchange Act of 1934, as amended, 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. The Company believes that all Section 16(a) filing requirements were met during fiscal 2008.

Table of Contents**BENEFICIAL OWNERSHIP OF COMMON STOCK**

The following table shows, as of March 16, 2009, 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 are nominees for re-election at the Annual Meeting, (c) the five most highly compensated executive officers serving during the last fiscal year, 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 16, 2009.

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 16, 2009	Percent of outstanding common stock ⁽¹⁾
AXA Financial, Inc.	24,988,629 ⁽²⁾		11.2%
J. C. Penney Corporation, Inc. Savings, Profit-Sharing and Stock Ownership Plan	17,012,060 ⁽³⁾		7.7%
Pzena Investment Management, LLC	16,316,803 ⁽⁴⁾		7.3%
State Street Bank and Trust Company	26,165,615 ⁽⁵⁾		11.8%
UBS AG	12,433,679 ⁽⁶⁾		5.6%
Directors ⁽⁷⁾ :			
Colleen C. Barrett	12,287	7,882	*
M. Anthony Burns	33,702 ⁽⁸⁾	16,682	*
Maxine K. Clark	12,716	7,882	*
Thomas J. Engibous	38,360	7,882	*
Kent B. Foster	22,370 ⁽⁹⁾	7,882	*
Ken C. Hicks	326,819	280,434	*
Burl Osborne	19,292	7,882	*
Leonard H. Roberts	32,685	7,882	*
Javier G. Teruel	5,834	3,734	*
R. Gerald Turner	29,464 ⁽¹⁰⁾	9,482	*
Myron E. Ullman, III	693,576	452,574	*
Mary Beth West	7,107	7,107	*
Named Executive Officers ⁽⁷⁾⁽¹¹⁾ :			
Robert B. Cavanaugh	249,813	232,665	*
Thomas M. Nealon	36,815	19,907	*
Michael T. Theilmann	162,383	140,692	*
All present directors and executive officers as a group ⁽⁷⁾	1,717,697	1,229,203	*

* Less than 1%.

(1) Calculated based on Rule 13d-3(d)(i) using the number of outstanding shares of common stock as of March 16, 2009.

(2) Based on information set forth in Amendment No. 1 to Schedule 13G filed with the SEC on February 13, 2009 by AXA Financial, Inc. and certain related entities reporting sole power to vote or direct the vote of 18,601,146 shares of JCPenney common stock and sole power to dispose or direct the disposition of 24,988,629 shares of JCPenney common stock. The address of AXA Financial, Inc. is 1290 Avenue of the Americas, New York, New York 10104.

(3)

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The trust maintained under the Savings Plan holds these shares. The address for the Savings Plan is 6501 Legacy Drive, Plano, Texas 75024. The trustee for the Savings Plan trust is State Street Bank and Trust Company, whose address is State Street Financial Center, Boston, Massachusetts 02111.

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- (4) Based on information set forth in a Schedule 13G filed with the SEC on February 17, 2009 by Pzena Investment Management, LLC reporting sole power to vote or direct the vote of 13,892,574 shares of JCPenney common stock and sole power to dispose or direct the disposition of 16,316,803 shares of JCPenney common stock. The address of Pzena Investment Management, LLC is 120 West 45th Street, 20th Floor, New York, New York 10036.
- (5) Based on information set forth in a Schedule 13G filed with the SEC on February 17, 2009 by State Street Bank and Trust Company, acting in various fiduciary capacities, reporting sole power to vote or direct the vote of 9,508,901 shares of JCPenney common stock, shared power to vote or direct the vote of 16,656,714 shares of JCPenney common stock and shared power to dispose or direct the disposition of 26,165,615 shares of JCPenney common stock, which includes shares of JCPenney common stock held in trust under the Savings Plan. The address of State Street Bank and Trust Company is State Street Financial Center, Boston, Massachusetts 02111. State Street Bank and Trust Company also provides certain trustee and custodial services for the Company's pension plan and serves as a lending bank under the credit facility to which the Company and its wholly owned subsidiary, J. C. Penney Corporation, Inc., are parties.
- (6) Based on information set forth in a Schedule 13G filed with the SEC on February 10, 2009 by UBS AG, for the benefit and on behalf of the UBS Global Asset Management Division of UBS AG, reporting sole power to vote or direct the vote of 11,135,474 shares of JCPenney common stock and shared power to dispose or direct the disposition of 12,433,679 shares of JCPenney common stock. The address of UBS AG is Bahnhofstrasse 45, P. O. Box CH-8021, Zurich, Switzerland.
- (7) 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 16, 2009. Does not include restricted stock units that will not vest within 60 days of March 16, 2009.
- (8) Includes 2,000 shares of JCPenney common stock pledged as collateral under a line of credit.
- (9) Includes 337 shares of JCPenney common stock with respect to which Mr. Foster shares voting and investment power.
- (10) Includes 1,603 shares of JCPenney common stock that Mr. Turner holds under the Company's Dividend Reinvestment Plan with respect to which he shares voting and investment power.
- (11) In addition to Mr. Hicks and Mr. Ullman, who each also serve as a director.

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The following table shows the number of options and other awards outstanding as of January 31, 2009 under the J. C. Penney Company, Inc. 2005 Equity Compensation Plan (2005 Plan) and prior plans, as well as the number of shares remaining available for grant under the 2005 Plan.

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	13,407,101 ⁽¹⁾	\$ 42 ⁽²⁾	8,657,170 ⁽³⁾

(1) Includes 1,545,035 restricted stock units, of which 500,000 represent the maximum payout under a performance award for which the performance period ends December 14, 2011.

(2) Represents the weighted-average exercise price of outstanding stock options only.

(3) At the May 20, 2005 Annual Meeting of Stockholders, the Company's stockholders approved the 2005 Plan, which reserved an aggregate of 17.2 million shares of common stock for issuance to Associates and non-employee directors. Since June 1, 2005, all grants have been made under the 2005 Plan. No shares remain available for future issuance from prior plans.

On March 16, 2009, the annual grant of stock options and performance unit awards covering 4,022,644 shares of common stock under the 2005 Plan was made.

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PROPOSAL 1

ELECTION OF DIRECTORS

The terms of each of the current directors set forth below will expire at the 2009 Annual Meeting. Each of these individuals has been nominated by the Board of Directors to serve as a continuing director for a new one-year term expiring at the 2010 Annual Meeting.

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. Our Bylaws provide that in a non-contested election, any nominee for director that is an incumbent director and does not receive a majority of the votes cast for his or her election must promptly tender his or her resignation, and the Board of Directors, excluding the director who tenders his or her resignation, must promptly decide whether to accept or reject the resignation. Absent a compelling reason for the director to remain on the Board, as determined by the other directors in the exercise of their business judgment, the Board shall accept the resignation. The Company will promptly and publicly disclose the Board's decision, together with an explanation of how the decision was reached.

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.

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

Nominees for Director

Colleen C. Barrett, 64

President Emeritus since July 2008, President and Director from 2001 to 2008, Chief Operating Officer from 2001 to 2004 and Corporate Secretary from 1978 to 2008 of Southwest Airlines Co., with which she served in positions of increasing importance since 1978, including Executive Vice President-Customers from 1990 to 2001 and Vice President-Administration from 1986 to 1990.

Director of the Company since 2004.

M. Anthony Burns, 66

Chairman Emeritus since 2002, Chairman of the Board from 1985 to 2002, Chief Executive Officer from 1983 to 2000, and a director from 1979 to 2002 of Ryder System, Inc. (a provider of transportation and logistics services), with which he served in positions of increasing importance since 1974, including its President from 1979 to 1999; Director of Pfizer, Inc. and The Black & Decker Corporation; Life Trustee of the University of Miami.

Director of the Company since 1988.

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Maxine K. Clark, 60

Founder and Chief Executive Officer since 1996 and Chairman since 2000 of Build-A-Bear Workshop, Inc., an operator of interactive children's entertainment retail stores; President and Chief Merchandising Officer of Payless ShoeSource, Inc., from 1992 until 1996; Executive Vice President for Venture Stores, Inc., from 1988 until 1992; Member of the Board of Trustees of the University of Georgia and Washington University; Former Member of the Board of Trustees of the International Council of Shopping Centers; Chair of Teach for America, St. Louis and National Board Member, Teach for America; Member of the Board of KETC-TV Public Television, St. Louis.

Director of the Company since 2003.

Thomas J. Engibous, 56

Retired Chairman of the Board, Director from 1996 to 2008 and President and Chief Executive Officer from 1996 to 2004, of Texas Instruments Incorporated (electronics), with which he served in positions of increasing importance since 1976, including as an Executive Vice President from 1993 to 1996; Chairman Emeritus of the Board of Catalyst; Member of The Business Council; Member of the National Academy of Engineering.

Director of the Company since 1999.

Kent B. Foster, 65

Retired Chairman of the Board, Director from 2000 to 2007, and Chief Executive Officer from 2000 to 2005, of Ingram Micro Inc. (wholesale distributor of technology); President of GTE Corporation (telecommunications) from 1995 to 1999; Vice Chairman of the Board of Directors of GTE Corporation from 1993 to 1995; President of GTE Telephone Operations Group from 1989 to 1995; Director of New York Life Insurance Company.

Director of the Company since 1998.

Ken C. Hicks, 56

President and Chief Merchandising Officer of the Company since 2005; President and Chief Operating Officer of Stores and Merchandise Operations of the Company from 2002 through 2004; President of Payless ShoeSource, Inc. from 1999 to 2002; Director of Avery Dennison Corporation.

Director of the Company since 2008.

Burl Osborne, 71

Retired Chairman of the Board, Director from 1993 to 2007 and former member of the Executive Committee of The Associated Press; President, Publishing Division from 1995 to 2001 and Director from 1987 to 2002 of Belo Corp.; Publisher from 1991 to 2001 of The Dallas Morning News, with which he served in positions of increasing importance since 1980, including President and Editor from 1986 to 1991; Director of GateHouse Media, Inc.; Retired Trustee and Former Chairman of the Belo Foundation; Former Director and Chairman of the Southern Newspaper Association; Former Director of the Newspaper Association of America; Director of Committee to Protect Journalists.

Director of the Company since 2003.

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Leonard H. Roberts, 60

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. from 1985 to 1990; Member of Executive Board of Students in Free Enterprise; Director of Tarrant County Safe City Commission; Vice Chairman of the Board of Directors of Texas Health Resources; Director of Rent-A-Center, Inc.

Director of the Company since 2002.

Javier G. Teruel, 58

Partner of Spectron Desarrollo, SC, an investment management and consulting firm; 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, as Vice President of Body Care in Global Business Development in New York, as President and General Manager of Colgate-Mexico, as President of Colgate-Europe, and as Chief Growth Officer responsible for the company's growth functions; Director of Starbucks Corporation, The Pepsi Bottling Group, Inc. and Corporacion Geo S.A.B. de C.V.

Director of the Company since 2008.

R. Gerald Turner, 63

President of Southern Methodist University since 1995; Chancellor of the University of Mississippi from 1984 to 1995; Co-Chairman, Knight Commission on Intercollegiate Athletics since 2005; Director of Kronos Worldwide, Inc. and American Beacon Funds.

Director of the Company since 1995.

Myron E. Ullman, III, 62

Chairman of the Board and Chief Executive Officer of the Company since 2004; Directeur General, Group Managing Director, LVMH Moët Hennessy Louis Vuitton (luxury goods manufacturer/retailer) from 1999 to 2002; President of LVMH Selective Retail Group from 1998 to 1999; Chairman of the Board and Chief Executive Officer, DFS Group Ltd. from 1995 to 1998; Chairman of the Board and Chief Executive Officer of R. H. Macy & Company, Inc. from 1992 to 1995; Director of Starbucks Corporation; Chairman of the Board and Chairman of the Executive Committee of the National Retail Federation; Chairman of the Board of Mercy Ships International; Director of the Federal Reserve Bank of Dallas.

Director of the Company since 2004.

Mary Beth West, 46

Executive Vice President and Chief Marketing Officer since 2007 of Kraft Foods Inc. (branded foods and beverages), with which she has served in positions of increasing importance since 1986, including Group Vice President and President, Kraft Foods North American Beverage Sector from 2006 to 2007; Group Vice President and President, Kraft Foods North America Grocery Segment from 2004 to 2006; Senior Vice President and General Manager, Meals Division from 2001 to 2004; and Vice President, New Meals Division from 1999 to 2001; Member of the Executive Leadership Council and Foundation.

Director of the Company since 2005.

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COMPENSATION DISCUSSION AND ANALYSIS

What are the Philosophy and Objectives of our Compensation Program?

Philosophy. 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. In 2005, we built on this heritage by adopting our WINNING TOGETHER Principles, which are set forth on the outside back cover of this proxy statement and which describe the core values of our Company.

Our Company's business strategy is set forth in our Long Range Plan, which lays out our goals and initiatives in becoming the preferred shopping choice for Middle America. The four key strategies of the Long Range Plan consist of:

- Developing an emotional connection with our customers that is strong and enduring;
- Inspiring our customers with our merchandise and services;
- Becoming the preferred choice for a retail career; and
- Establishing JCPenney as the growth leader in the retail industry.

Although the Long Range Plan continues to be the foundation of our business strategy, in view of the difficult economic environment that developed in the second half of 2007 and continued through 2008, we have modified our financial and business plans, as well as our expectations, in the near term. Our Bridge Plan is designed to enable the Company to effectively navigate through the current challenging retail environment, while working to improve both the Company's competitive positioning and market share, until such time as the Company can get back on the trajectory to accomplish our original goals under the Long Range Plan. The objective of the Bridge Plan is to effectively balance support of key merchandise and marketing initiatives with the goal of maintaining a strong financial position.

Our business decisions, including the design and implementation of our compensation program, are driven by our Long Range Plan, our WINNING TOGETHER principles and, during this severe economic downturn, our Bridge Plan.

Objectives. As part of achieving the strategy of becoming the preferred choice for a retail career, we have established two key initiatives:

- Retaining, attracting and developing the best people in retail; and
- Building a WINNING TOGETHER culture by offering a meaningful, challenging and exciting place to work.

Accordingly, our compensation program is structured to retain, attract and develop the best people in retail, and to link compensation to performance, through the following objectives:

- The level of compensation for each position should be competitive based on the skill, knowledge, effort, and responsibility needed to perform the job successfully;
- A substantial portion of compensation should depend on our overall company financial performance; and
- Individual results should be rewarded by recognizing individual performance.

How Do We Set Executive Compensation?

Role of Management and the Human Resources and Compensation Committee. The Human Resources and Compensation Committee of the Board of Directors 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.

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The Committee determines compensation for each executive officer other than the Chief Executive Officer (CEO). The CEO's compensation is determined by all of the independent directors of the Board.

Management makes recommendations to the Committee regarding the design and implementation of our executive compensation program. Management works with its outside executive compensation consultant (Mercer LLC) in making recommendations that are consistent with the Company's philosophy and objectives. Mercer does not work for the Committee or the Board of Directors in any capacity.

As part of the Committee's deliberations, the CEO makes compensation recommendations for the executive officers other than himself, including the other executives named in the Summary Compensation Table (named executive officers). The recommendations include the CEO's evaluation of individual performance against previously set individual performance objectives for each of the named executive officers, other than himself. The Committee considers these recommendations in making its determinations.

In evaluating management's recommendations, the Committee engages an independent consultant (James F. Reda & Associates, LLC) to assist in its deliberations and decision-making. The Committee has sole authority to retain and terminate its consultant and sole authority to approve the fees and other retention terms of the engagement. This independent consultant reports directly to the Committee and neither he nor his firm work for the Company's management in any capacity.

Market Benchmarking. We compete against a broad array of companies for executive talent. Accordingly, each year we benchmark the competitiveness of our various compensation programs against the compensation programs of selected peer companies.

For 2008, the following companies constituted the peer group for benchmarking purposes:

Apple Computer Inc	Kellogg Co	PepsiCo Inc
Best Buy Co., Inc.	Kimberly-Clark Corp	Sears Holdings Corp
Colgate-Palmolive Co	Kohl's Corp	Staples Inc.
Costco Wholesale Corp	Kraft Foods Inc	Starbucks Corp
CVS Corp	Limited Brands Inc.	Starwood Hotels & Resorts Worldwide
Disney (Walt) Co	Lowe's Cos Inc.	Target Corp
Gap, Inc. (The)	Macy's Inc.	Walgreen Co
General Mills Inc.	Marriott International Inc.	
Home Depot Inc. (The)	McDonald's Corp	
	Nike Inc	

These companies represent a combination of select retail and high brand value companies with median revenues of \$24.6 billion and an average employee count of 150,000. In 2008, JCPenney's revenues were \$18.5 billion and at fiscal year-end, we had approximately 147,000 employees.

We seek to have target compensation be at or near the 50th percentile of compensation for the peer group. The Committee was provided market pay data obtained by Mercer for the peer group. In setting the compensation of each named executive officer, the Committee, with the assistance of James F. Reda, made its own determination as to the relevance of data for the peer group, considering (i) the transferability of managerial skills, (ii) the relevance of the named executive officer's experience to other potential employers, and (iii) the readiness of the named executive officer to assume a different or more significant role within the Company.

As part of the annual review process, the Committee reviews the peer groups being used and the companies in the peer groups. For 2009, the Committee has determined not to make any changes to the peer group for benchmarking purposes.

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Internal Pay Relationships. Our compensation philosophy is centered on offering a competitive target compensation package to each of the named executive officers based on the market within which we compete for talent. The Committee, and with respect to the CEO, all of the independent directors, then adjust pay for each named executive officer based on individual performance. The differences in pay between the named executive officers relative to each other as well as the CEO are based on market differences for the particular job, job responsibilities and scope, and adjustments for individual performance rather than a pre-determined ratio or multiple.

Tax Deductibility. Section 162(m) of the Internal Revenue Code (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. Our annual base salary, cash incentive compensation, 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 Human Resources and Compensation Committee has not adopted a policy requiring that all compensation be tax deductible.

Financial Restatement. As noted above, 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 willful actions or gross negligence, the Human Resources and Compensation Committee would determine the appropriate action. This could include requiring previously awarded equity-based compensation to be relinquished and/or previously paid cash compensation to be repaid.

What are the Principal Elements of our Compensation Program?

There are three principal components of our executive compensation program:

- Base salary;
- Annual cash incentive awards; and
- Long-term incentive awards, currently delivered in the form of equity awards.

In keeping with the objectives of the compensation program, the majority of the compensation opportunity for our executive officers is based on performance. For 2008, at a target level of performance and payout, 76% of the CEO's total direct compensation and, on average, 75% of the remaining named executive officers' total direct compensation was at-risk. At a target level of performance, the plans are designed to reward executives with pay that is competitive with the 50th percentile of the market. The plans are leveraged in such a way that outstanding performance results in pay that is above the 50th percentile of the market and poor performance results in pay that is below the 50th percentile. We believe that the combination of annual cash incentive awards and long-term incentive awards strikes the appropriate balance between the near-term focus on Company sales, profitability and individual performance and the long-term focus on stockholder value creation.

Base Salary. We pay base salaries that are competitive based on market data for comparable positions at companies in our peer group. We review base salaries, which are benchmarked against median market data for the position, annually. Once base salary has been fixed, it does not change based on Company performance. Merit increases are intended to reward individual performance consistent with our WINNING TOGETHER Principle of paying for performance. They are also intended to ensure that the individual's base salary remains competitive for the position and level of responsibility. The Summary Compensation Table presents the named executive officers' actual salaries for 2008. The Committee, and with respect to the CEO, the independent directors, determined that base salaries for the named executive officers would remain unchanged for 2009.

Annual Cash Incentive Awards. Annual cash incentive compensation is determined and paid pursuant to our Management Incentive Compensation Program. This program provides named executive officers as well as other

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management Associates the opportunity to earn cash awards based on the achievement of specified Company and individual goals for the year. For the named executive officers, in 2008, the program provided that 50% of the award was based on individual performance and 50% was based on Company performance, in both cases in relation to pre-established goals.

Each component of the award (sales, operating profit, and individual performance) has a separate payout opportunity. The funding pools for the sales and operating profit payouts are determined in accordance with the respective matrices for such components. Since the Company did not achieve its minimum sales and operating profit targets for 2008, there was no payout with respect to these components of the award. The total funding pool for the individual component of the award is determined by the CEO for participants who are not executive officers. The Committee determines the funding pool for the individual component for executive officers and the independent directors of the Board determine the funding of the individual component for the CEO.

The program structure provides each participant with a target incentive opportunity. This target is a percentage of the individual's base pay and is based on the range of competitive market data for the position. For 2008, the target incentive opportunities for the named executive officers ranged from 50% to 125% of base salary. For the named executive officers other than the CEO, the target incentive opportunity is set by the Human Resources and Compensation Committee based upon its evaluation of the recommendations of the CEO. The target incentive opportunity for the CEO is set by all of the independent directors of the Board. The Committee, and with respect to the CEO, the independent directors, determined that target incentive opportunity percentages for 2009 for the named executive officers would remain unchanged.

Performance goals for each component of the award are established at the beginning of the fiscal year. At the end of the fiscal year, a payout factor is calculated for each component. In each case, the factor can range from 0 to 200% of the target incentive opportunity. The payout factor for the individual component is based on the individual's performance measured against the participant's annual performance objectives. Annual performance objectives for the named executive officers other than the CEO vary by individual and include the achievement of strategic, operational and financial goals relating to the individual's function and responsibilities within the organization. There is no predetermined weighting for the various objectives considered by the Committee. The payout factor for the Company component is based on the Company's actual results in relation to its goals for sales and operating profit that were set at the beginning of the year. For this purpose operating profit is defined as earnings from continuing operations before interest, income taxes, the change in the LIFO reserve (year-over-year), and real estate and other, net. The payout matrices for the sales and operating profit components are approved by the Committee, and with respect to the CEO, the independent directors of the Board.

The final payout is determined pursuant to the following calculation:

Total Payout = (50% × target incentive opportunity × Individual Payout Factor) + (50% × target incentive opportunity × Company Payout Factor).

Awards, if any, are paid within two and one half months following the end of the year in which they are earned.

For 2008, the Company's performance was:

Measure	Plan (in millions)	Actual (in millions)	% +/- Plan	Weighted Payout Factor
Sales	\$ 20,424	\$ 18,486	-9.5%	0%
Operating Profit	\$ 1,665	\$ 1,110	-33.3%	0%

As noted above, the 2008 sales and operating profit components of the award generated zero payouts. The payouts for 2008 for each of the named executive officers based on their individual annual performance

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objectives are reflected in the Summary Compensation Table under the column Non-Equity Incentive Plan Compensation. The range of potential payouts for each of the named executive officers for 2008 is presented in the Grants of Plan-Based Awards table.

Long-Term Incentive Awards. Long-term incentive awards are made under our 2005 Equity Compensation Plan. This plan provides equity-based awards to eligible Associates, including the named executive officers, other Company officers, senior management Associates, and store managers. Generally, whether an Associate receives an award and the size of the award are a function of the Associate's position, performance, and potential.

For 2008, annual long-term incentive awards included:

- Performance-based restricted stock unit awards;
- Time-based restricted stock unit awards; and
- Stock options.

The potential number of performance-based units, time-based units and stock options awarded to each participant was based on a predefined target equity dollar value for the participant. The target equity dollar value for each named executive officer is determined by his or her position, 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.

Consistent with our objective of rewarding individual results, the equity dollar value that a participant receives at grant is based on the participant's performance and future potential. In 2008, the equity dollar value at grant for each participant generally ranged from 0% to 150% of the target equity dollar value based on individual performance for the previous year. The 2008 equity dollar values for each of the named executive officers were as follows: Mr. Ullman, \$8,000,000; Mr. Cavanaugh, \$1,450,000; Mr. Hicks, \$3,315,000; Mr. Theilmann, \$1,265,000; and Mr. Nealon, \$750,000. Participants received 25% of their equity dollar value in performance-based restricted stock units, 25% in time-based restricted stock units and 50% in stock options. We believed that this split would best balance the near-term focus on Company profitability, the long-term focus on stockholder value creation, and our compensation objective of retaining and attracting the best people in retail. For purposes of determining the number of stock options to be granted, we divide 50% of the equity dollar value by the fair value of a stock option on the date of grant. Fair value is 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.

In March 2008, the Committee made its 2008 annual equity grant. This grant comprised performance-based restricted stock unit awards covering 383,767 shares of common stock, time-based restricted stock unit awards covering 383,767 shares of common stock and non-qualified options covering 2,196,779 shares of common stock to 1,667 management Associates of the Company. The stock options have an option price of \$39.78 per share (the closing price of the Company's common stock on the date of grant).

On July 24, 2008, in recognition of the challenging macroeconomic and retail environments that have adversely affected the Company's stock price and to mitigate the risk of losing key talent in light of the difficult retail environment, the Committee made a supplemental annual grant of approximately 1.3 million stock options to selected management Associates at an option price of \$30.88. This supplemental annual grant, which vests annually over a three-year period, covered approximately 150 Associates. Messrs. Cavanaugh, Hicks, Theilmann and Nealon were among the Associates who received additional stock options pursuant to this supplemental annual grant. Mr. Ullman did not participate in this grant.

Subsequent to the July supplemental annual grant, the economic environment deteriorated even further. On November 20, 2008, to demonstrate the Board's commitment to the current senior management team, as well as its confidence in the team's ability to execute the Bridge Plan despite an extremely challenging climate, the

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Committee made an additional supplemental annual grant of approximately one million stock options to approximately 50 key Associates, including Messrs. Cavanaugh, Hicks, Theilmann and Nealon. The Committee approved this grant with the goal of keeping the current management team together for the long term. To that end, the Committee decided that the options, which have an option price of \$14.38, will vest 100 percent on the third anniversary of the date of grant. Mr. Ullman also did not participate in this grant.

Mr. Ullman does not have an employment agreement with the Company nor is he covered by severance aside from the Company's Change in Control Plan. His performance is reviewed on an annual basis by the independent directors of the Board based on specific quantitative hurdles and other factors including competition and the macroeconomic environment.

On December 10, 2008, the independent directors of the Board approved a supplemental annual performance unit grant for the CEO. The purpose of the grant is to provide an incentive for performance during the current economic environment and to recognize Mr. Ullman's willingness to continue his service to the Company. He will complete five years of service as CEO in December 2009. Including this award with the target amount valued at the closing market price of JCPenney common stock on the date of grant, more than 50 percent of Mr. Ullman's long-term incentive awards for 2008 were in the form of performance-based equity. It is the present intention of the independent directors that at least 50 percent of all future grants of equity awards to the CEO be in the form of performance-based equity having pre-established performance measures.

The performance period for the CEO's supplemental annual performance unit award is three years beginning on December 15, 2008 and ending on December 14, 2011. The performance measurement for the award is the Company's annualized total stockholder return over the performance period, with total stockholder return defined as the Company's annual stockholder returns for the performance period, assuming reinvestment of dividends on the date paid (assumed to be the ex-dividend date). The annualized stockholder return will be calculated based on the closing price of the Company's common stock on the last trading day immediately preceding the date of grant and the 60-day trailing average stock price of the Company's common stock prior to the last day of the performance period.

The target number of shares to be awarded under the grant is 300,000, but the number of shares received may range from 0 to 500,000, depending on the Company's performance over the performance period. The maximum payout under the award is capped at \$25 million based on the closing price of the Company's common stock on the vesting date for the award, which is December 15, 2011. The actual number of shares earned, if any, will be determined pursuant to the payout matrix set forth below. In the event that the aggregate value of the shares of the Company's common stock earned in accordance with the payout matrix exceeds \$25 million, the number of shares paid will be reduced to comply with this limit.

The payout matrix for the December supplemental annual performance unit award is as follows:

December 2008 Performance Unit Award Payout Matrix

Annualized Total Stockholder Return	Vesting	Number of Shares*
<11.3%	0%	0
11.3%	66 ² / ₃ %	200,000
17.9%	100%	300,000
23.3%	133 ¹ / ₃ %	400,000
29.1% or greater	166 ² / ₃ %	500,000

* At the end of the three-year performance period, once the minimum performance (11.3% annualized total stockholder return) has been achieved, the payout will be calculated on a pro-rata basis with a maximum payout of 500,000 shares. In addition, the number of shares paid may be reduced as necessary to comply with the \$25 million payout limit.

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In the event that Mr. Ullman's employment with the Company terminates during the performance period due to retirement, death or disability, he will receive a pro-rated portion of the payout determined pursuant to the payout matrix, if any. The proration will be based on the ratio of (a) the number of calendar days from the date of grant to the effective date of termination to (b) the total number of calendar days in the vesting period.

In summary, for Mr. Ullman, the 2008 annual long-term incentive awards that he received consisted of \$7.8 million in target amount of performance-based restricted stock units (valued at the closing market price of JCPenney common stock on the date of grant), \$4 million in stock options and \$2 million in time-based restricted stock units. Relative to 2007, performance-based restricted stock units represented more than 50 percent of the increase in his 2008 equity compensation.

Performance-Based Restricted Stock Units. Performance-based restricted stock units were granted in March 2008 to reward both individual performance and Company performance (based on earnings per share). The number of performance units granted was a target award which could increase or decrease based on the extent to which the Company achieved the performance measurement established by the Human Resources and Compensation Committee. The performance measurement was set at the beginning of the performance cycle, which was our fiscal year. At the end of the fiscal year, the percent of the target award earned was determined pursuant to a payout matrix that the Committee established. Based on the Company's results for 2008, none of the performance-based restricted stock units granted in March 2008 were earned.

The payout matrix set forth a range of payout percentages relative to the Company's actual results for the fiscal year. For 2008, the performance measurement was earnings per share (defined as diluted per common share income from continuing operations, excluding any unusual and/or extraordinary items identified by the Committee). The payout percentages under the payout matrix ranged from 0 to 200%. For participants to receive 100% of the target award for 2008, the Company had to generate earnings per share of \$4.00 for the fiscal year and to receive the maximum payout of 200% of the target award, the Company had to generate earnings per share of at least \$4.50. To receive any payout for 2008 under this program, the Company had to generate earnings per share of at least \$3.50. Fiscal 2008 earnings per share, as determined by the Committee, was \$2.54, which generated a zero payout under the program.

Time-based Restricted Stock Units. For 2008, the Committee, and with respect to the CEO, the independent directors of the Board, added a time-based restricted stock unit component to the long-term incentive program. This change was made to mitigate the risk of losing key talent due to the cyclical nature of our business while still retaining a direct link to stock price. Each restricted stock unit represents the right to receive one share of our common stock on the vesting date. The units vest annually over a three-year period provided that the participant remains continuously employed with the Company during that time. Since the units have value in all market conditions, they provide a strong retention mechanism. The ultimate value of the award, however, depends on the market value of our common stock on the vesting date so they also align the interests of the participant with stockholders.

Stock Options. Stock options are awarded with an exercise price equal to the closing price of JCPenney common stock on the date of grant. Accordingly, stock options have value to the recipient only if the market price of the common stock increases after the date of grant. The stock option awards, which also may be granted to reward individual performance and future potential, are intended to align the executives' interests with those of our stockholders.

The stock options generally vest annually over a three-year period provided that the participant remains continuously employed with the Company during that time. They generally expire ten years after the date of grant.

Additional Awards. The Company may grant additional equity awards to recognize increased responsibilities or special contributions, to attract new hires, to retain Associates or to recognize certain other special circumstances.

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In March 2008, the Human Resources and Compensation Committee approved a special one time restricted stock unit award for Mr. Nealon in the amount of 12,569 units. This award vests 100% on the third anniversary of the grant date. The Committee approved this award in recognition of Mr. Nealon's contributions to the Company and to help retain him in the future.

2009 Annual Grant. On March 16, 2009, the Committee made a 2009 annual grant of non-qualified stock options covering 3,618,300 shares of common stock to 642 management Associates of the Company. The stock options have an option price of \$16.09 per share (the closing price of the Company's common stock on the date of grant). The Committee decided to make the 2009 annual grant to Associates other than the CEO, whose 2009 annual grant is discussed in the next paragraph, entirely in stock options in recognition of the difficulty in setting performance goals in the current volatile economic environment and to focus Associates' efforts on long-term goals in the face of such near-term volatility.

Also on March 16, 2009, the independent directors made a 2009 annual grant to Mr. Ullman comprised of performance-based restricted stock units covering 149,161 shares of common stock and non-qualified stock options covering 255,183 shares of common stock. As with the stock options granted to other Associates in the 2009 annual grant, the stock options granted to Mr. Ullman have an option price of \$16.09 per share.

The performance period for Mr. Ullman's performance unit award is three years beginning March 16, 2009 and ending March 15, 2012. As with Mr. Ullman's December 2008 grant, the performance measurement for the 2009 performance unit award is the Company's annualized total stockholder return over the performance period, calculated based on the closing price of the Company's common stock on the last trading day immediately preceding the date of grant and the 60-day trailing average stock price of the Company's common stock prior to the last day of the performance period. The minimum performance level required to achieve 100% payout of the award is 11.3% annualized total stockholder return. If the annualized total stockholder return is less than 11.3%, no portion of the performance unit award will be earned. The maximum payout is 100% of the performance units awarded. In the event that Mr. Ullman's employment with the Company terminates during the performance period due to retirement, death or disability, he will receive a pro-rated portion of the payout at the end of the performance period, if any. The proration will be based on the ratio of (a) the number of calendar days from the date of grant to the effective date of termination to (b) the total number of calendar days in the vesting period.

The independent directors made the 2009 annual grant to Mr. Ullman to align his interests with the long-term interests of stockholders and to reflect their strong desire to retain Mr. Ullman's services in the future.

For equity awards outstanding for each of the named executive officers as of the end of fiscal 2008, see the Outstanding Equity Awards at Fiscal Year-End table. Actual awards vesting, earned or exercised during the fiscal year are presented in the Option Exercises and Stock Vested table.

Equity Award Grant Policy. The Human Resources and Compensation Committee has adopted a Policy Statement which sets forth its practices regarding the timing of, and approval process for, equity awards.

Grant	Grant Date
Annual grant	Third full trading date after Committee approval
Off-cycle grants other than to new hires	Third full trading date following public release of earnings for the fiscal quarter in which the award is approved
Off-cycle grants for new hires	Third full trading date following the public release of earnings for the later of the fiscal quarter in which (a) the award is approved or (b) the Associate's employment with the Company begins

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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.

The authority to approve off-cycle equity awards to Associates who are not executive officers has been delegated by the Committee to the CEO.

Stock Ownership Goals. JCPenney strives to align pay with the long-term interests of stockholders. The Board of Directors 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:

CEO: five times base salary

President and Chief Merchandising Officer: three times base salary

Executive Vice President: one times base salary

Senior Vice President serving on the Executive Board (which is the Company's senior management leadership team): one times base salary

In addition to directly owned stock, shares held in Company qualified and non-qualified savings plans are included in calculating ownership levels. Unvested awards and unexercised stock options do not count toward the ownership goals. All of the named executive officers either have met, or are on track to meet, these goals.

How was the CEO's Compensation Determined?

Mr. Ullman, the Company's CEO, does not have an employment contract or an Executive Termination Pay Agreement (discussed in more detail under "Potential Payments and Benefits on Termination of Employment"). The independent directors of the Board review and evaluate the CEO's performance in relation to the performance objectives set for him at the beginning of the year. The Committee, based on that evaluation as well as market data provided by the Committee's consultant, then makes a recommendation to the other independent directors of the Board regarding the CEO's compensation. All of the independent directors of the Board, including the members of the Committee, then make the final determination regarding the CEO's compensation.

In evaluating Mr. Ullman's 2008 performance, the independent directors of the Board considered the Company's financial results within the context of the Bridge Plan as well as execution of the four key strategies of the Company's Long Range Plan. Although the Company did not meet its pre-determined financial goals, Mr. Ullman's leadership and clear articulation of the Bridge Plan in the face of an extremely challenging retail environment in 2008 marked by a sharp decline in consumer spending enabled the Company to end the year in a strong financial position with the flexibility to continue to execute its initiatives. Specifically, the directors focused on the following achievements for 2008:

Developing an emotional connection with our customers that is strong and enduring:

The Company successfully launched its CustomerFIRST initiative, empowering Associates to deliver on the promise of highly satisfying customers. The result was a six-point improvement in the Company's overall satisfaction score with customers, as measured by the percentage of customers who strongly agreed that they were satisfied with their JCPenney shopping experience in the Company's online customer satisfaction survey.

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The Company significantly improved its Customer Service rankings, with a #1 ranking in customer service among department store retailers and #7 among all retailers in the National Retail Federation Foundation/American Express 2008 Customer Service Survey. The Company effectively rolled out its JCP Rewards loyalty program to reward customers for regularly shopping at JCPenney while building long-term customer loyalty, registering over one million members in its first year.

Inspiring our customers with our merchandise and services:

The Company continued to deliver newness and excitement in its merchandise assortments with the development and launch of private brands Decree, Linden Street and Xersion and introduction of exclusive brand Fabulosity. The Company significantly updated and expanded two of its twelve Power brands, Worthington for women and Stafford for men. The Company accelerated its roll-out of its highly successful Sephora inside JCPenney concept, with 91 locations at year-end.

Becoming the preferred choice for a retail career:

Associate engagement (the extent to which our Associates are enthusiastic and committed to their work as measured in our annual survey) continued to improve, up two points over last year despite the difficult sales environment. The Company improved the diversity of its store and senior management teams, conducted diversity training for 30,000 Associates, and held its first ever Diversity Summit at its Home Office. The Company experienced a substantial decline in Associate turnover, which both supports improvement in our customer service as well as reduces training costs for new hires.

Establishing JCPenney as the growth leader in the retail industry:

The Company recorded a positive contribution to cash flow from operating activities less capital expenditures, net of proceeds from the sale of assets, and dividends of \$21 million, despite a \$1.374 billion decline in sales versus 2007, and ended the year with approximately \$2.4 billion in cash on its balance sheet. The Company effectively managed its inventory, ending the year with comparable store inventory approximately 13.5 percent lower than the previous year, in line with expected sales trends for the near term. The Company successfully controlled its operating expenses despite the incremental expenses associated with opening 26 new stores, net of closings and relocations.

As a result of their evaluation, while recognizing that the Company failed to meet the pre-determined thresholds for earning incentives for financial performance, the independent directors determined that Mr. Ullman's 2008 annual cash incentive award should be \$1,406,250 based on his outstanding performance relative to his annual individual performance objectives. Furthermore, for 2009, the independent directors considered their overall assessment and comparable data from a select group of peer companies and determined that for the coming year, Mr. Ullman's base salary of \$1,500,000 should remain unchanged and his performance-based target cash incentive opportunity should remain unchanged at 125 percent of his base salary. The directors also determined that Mr. Ullman's long term incentive opportunity should be \$4 million, delivered 60 percent in the form of performance-based restricted stock units and 40 percent as stock options. The directors felt that this split, over half of which is in the form of performance-based equity, appropriately aligns Mr. Ullman's interests with the long-term interests of the Company's stockholders. The dollar value of this long-term incentive award is one-half that of 2008.

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In making their determinations, the independent directors recognized Mr. Ullman's successful execution of the Bridge Plan and the Long Range Plan in the face of an unprecedented and extremely challenging economic environment. In addition, the determinations of the independent directors reflected their strong desire to retain Mr. Ullman's services in the future, as well as his willingness to continue to lead the Company through this difficult period.

What are our Other Compensation Program Elements?

In addition to the three principal components of our compensation program, we also offer the following to our executive officers:

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

Retirement Benefits. We provide certain retirement benefits to our Associates that are designed to help us attract and retain the best people in retail. 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 are our defined contribution 401(k) plan (Savings Plan) and, for Associates earning more than the IRS compensation limit for qualified plans, our non-qualified defined contribution plan (Mirror Savings Plan). Both the Savings Plan and Mirror Savings Plan offer eligible Associates the opportunity to defer a portion of their base salary and annual cash incentive compensation as a means 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. The legacy plans also include a Supplemental Retirement Program (SRP), which was closed to new Associates effective January 1, 1996.

Because each of the named executive officers commenced employment with the Company before January 1, 2007, each of them is eligible to participate in the Pension Plan and BRP. As of the date of this Proxy Statement, Messrs. Cavanaugh and Hicks are the only named executive officers who are vested in the Pension Plan and BRP. Mr. Cavanaugh is the only named executive officer eligible to participate in the SRP.

The Pension Plan, BRP and SRP 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 executive officers are entitled to participate in active Associate health and welfare benefit plans, including paid time off, medical, dental, group term life insurance, long-term care insurance, and disability insurance, on the same terms and conditions as those made available to Associates generally. The Company also provides a retiree life insurance benefit in which retirees can enroll in group term life insurance at group rates. We provide these benefits as part of a competitive package of health and welfare benefits in an effort to attract and retain the best people in retail.

For eligible Associates hired before January 1, 2002, we also provide retiree medical and dental benefits. Under this program, the Company pays a portion of the premium for post-retirement medical coverage up to age 65. The Company does not pay any portion of the premium for post-retirement dental coverage. Mr. Cavanaugh is the only named executive officer eligible for retiree medical and dental benefits.

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Termination Arrangements. We do not have employment agreements with our executive officers; however, in order to attract and retain the best people in retail, we recognize the need to provide protection to our executives in the event of termination of employment without cause 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 executive officer.

The Executive Termination Pay Agreement provides severance benefits to the executive in exchange for the executive's agreement to comply with certain covenants. The benefits payable under the Executive Termination Pay Agreement are not available if the executive receives the benefits under the Change in Control Plan. The Company and the CEO have agreed not to enter into an Executive Termination Pay Agreement.

For executives serving on the Company's Executive Board, the Company maintains a Change in Control Plan that provides benefits if the executive's employment is involuntarily terminated within two years following a change in control of the Company. The plan also entitles participants to receive a tax gross-up payment in respect of any excise taxes imposed on the benefits payable under the plan. The plan further provides that benefits under the plan may be reduced to keep benefit payments under the threshold that would trigger an excise tax and gross-up payment. All of the named executive officers participate in this Change in Control Plan.

Participants in the Change in Control Plan are eligible for tax gross-up payments in the event a change in control occurs within five years from the date they became eligible to participate in the plan, subject to existing limitations and conditions. After five years of participation, participants will either receive their full benefit under the plan and pay the excise tax themselves or have their benefit reduced so that no excise tax will apply. The Human Resources and Compensation Committee believes that although such gross-ups are valuable, such payments have diminishing utility over time. The plan also allows any participant to waive his or her right to receive an excise tax gross-up payment under the plan. Mr. Ullman, the Company's CEO, has elected not to receive any excise tax gross-up with respect to benefits payable to him under the Change in Control Plan.

In October 2008, the Board of Directors adopted a policy that the Company will not enter into future severance arrangements that provide for severance benefits in an amount exceeding 2.99 times the sum of base salary and target bonus (the severance benefits limitation) without obtaining stockholder approval. Pursuant to this policy, the Board has approved the 2009 Change in Control Plan (2009 Plan), which is applicable prospectively for newly appointed Executive Board members. The 2009 Plan is similar to the Change in Control Plan in all respects except that it does not provide for the payment of excise tax gross-ups and it limits benefits to the severance benefits limitation.

Both the Change in Control Plan and the Executive Termination Pay Agreement are described in more detail in Potential Payments and Benefits on Termination of Employment.

Perquisites. Other than those that we believe are necessary for security reasons or are related to unforeseeable circumstances, our perquisites focus on promoting physical well-being and providing limited financial counseling services. We provide these benefits to enable our executives to devote their energy and attention to the Company and fulfillment of our Long Range Plan.

For security purposes, the Board of Directors requires the CEO to participate in a Key Associate Protection Program (KAPP), which is intended to safeguard the CEO and members of his immediate family. The KAPP is a program approved by the Company's Board of Directors as a result of recommendations contained in an independent, third-party security study.

In fiscal 2008, we provided the following benefits to our executives:

Home Security. Under the KAPP, the CEO is required to have a home security system in both his principal residence and his family's principal residence, monthly fees and associated expenses of which are paid by the

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Company. For total compensation purposes, we value these benefits based on the actual charges incurred by the Company for the services provided, which is reflected as compensation to the CEO in the Summary Compensation Table below.

Company-Leased Car. The KAPP program also requires that, for security purposes, the CEO use a Company-leased car for business reasons and commuting to and from the office, as well as non-Company business use. With respect to the CEO's personal and commuting use of the Company car and driver, the cost of the car lease and fuel were imputed as income and grossed up for tax purposes. As a result of the recommendations contained in the independent, third-party security study, the cost of the drivers was not charged as income for tax purposes.

For purposes of determining the aggregate incremental cost to the Company of the personal use of the Company-leased vehicle, we first calculate the personal mileage attributable to the CEO's use as a percentage of the vehicle's overall annual mileage. This percentage is then applied to the annual lease costs of the vehicle and the annual fuel costs of operating the vehicle. The resulting amount, together with the income tax gross-up, is reflected as compensation to the CEO in the Summary Compensation Table below.

Company Aircraft. In addition, as part of KAPP, the CEO is required to use Company aircraft for all business and personal travel. Moreover, the CEO has a physical condition that significantly limits his mobility. As a result, use of Company aircraft for business and personal travel increases his effectiveness and flexibility in performing his duties. The majority of the CEO's personal travel is commuting to and from his family's residence. The Company provides a tax gross-up on income imputed to the CEO for personal use of Company aircraft.

The Company does not generally make Company aircraft available for non-Company business use by Company Associates, other than to the CEO as required by the KAPP program. However, on extremely infrequent occasions, with the approval of the CEO, Company aircraft may be used personally by other Company Associates such as in the event of a family emergency or to accelerate an executive's return from a personal trip to address a business need. To the extent that a Company Associate incurs taxable income in connection with the use of Company aircraft while addressing a business need, the Company provides a tax gross-up on the amount of 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. A nautical mile is a unit of length used for maritime and aviation purposes. The cost per nautical mile is based on published industry data for each of the airplanes owned and operated by the Company.

The cost per nautical mile excludes fixed costs which do not change based on usage, such as pilots' or other employees' 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.

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Annual Health Exam and Financial Counseling. In 2008, the named executive officers were eligible to receive the following perquisites:

A taxable allowance of up to \$13,550 for a newly eligible participant or up to \$9,380 for an existing participant, for financial counseling services, which may include tax preparation and estate planning services (the Company may also reimburse travel and other related out of pocket expenses relating to such services); and

An allowance of up to \$3,000 for an annual health exam.

Effective January 1, 2008, the Company made a program change to its financial counseling benefit to comply with Section 409A of the Code. Pursuant to this change, the program benefit is now payable on a calendar year basis as opposed to a rolling twelve-month basis measured from the date of election to participate. For 2008, participants who first elected to participate in calendar year 2007 received both the new participant allowance for the rolling twelve-month period measured from their date of election to participate, as well as the existing participant allowance for calendar year 2008. Existing participants in 2007 received only the existing participant allowance for calendar year 2008.

The Company does not provide a tax gross-up on either of these benefits. We value these benefits based on the actual charges incurred by the Company for the services provided, which is reflected as compensation in the Summary Compensation Table below.

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REPORT OF THE HUMAN RESOURCES AND COMPENSATION COMMITTEE

The Human Resources and Compensation Committee of the Board of Directors 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.net.

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 2008 and the Company's 2009 Proxy Statement. This report is submitted by the following independent directors, who comprise the Human Resources and Compensation Committee:

Burl Osborne (Chair)
Colleen C. Barrett
M. Anthony Burns

Maxine K. Clark
R. Gerald Turner

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Name and Principal Position	Year	Salary (\$)	Stock Awards (\$) ⁽¹⁾	Option Awards (\$) ⁽¹⁾	Non-Equity Incentive Plan Compensation (\$) ⁽²⁾	Change in Pension Value and Non-qualified Deferred Compensation	All Other Compensation (\$)	Total (\$)
						Earnings (\$) ⁽³⁾		
Myron E. Ullman, III Chairman and	2008	1,500,000	2,737,106	3,512,033	1,406,250	331,296	537,262 ⁽⁴⁾	10,023,947
	2007	1,500,000	3,113,725	2,182,482	0	587,422	601,986	7,985,615
Chief Executive Officer	2006	1,500,000	4,392,817	870,439	2,673,750	155,455	791,153	10,383,614
Robert B. Cavanaugh Executive Vice President	2008	697,500	260,601	721,274	230,000	313,160	38,472 ⁽⁵⁾	2,261,007
	2007	685,000	367,547	406,136	0	507,109	16,657	1,982,449
and Chief Financial Officer	2006	667,125	611,945	867,117	723,575	742,451	13,869	3,626,082
Ken C. Hicks President and Chief	2008	885,000	731,100	1,846,727	675,000	190,299	21,530 ⁽⁶⁾	4,349,656
	2007	830,000	890,705	1,071,703	0	85,419	44,951	2,922,778
Merchandising Officer	2006	791,250	937,753	689,779	1,072,932	95,769	86,179	3,673,662
Michael T. Theilmann Executive Vice President,	2008	587,500	585,424	848,564	337,500	29,419	24,032 ⁽⁷⁾	2,412,439
	2007	542,500	996,049	660,206	0	37,224	31,837	2,267,816
	2006	515,000	1,077,103	477,339	550,924	3,159	23,547	2,647,072
Chief Human Resources and Administration Officer								
Thomas M. Nealon Executive Vice President	2008	518,750	868,285	422,211	220,000	21,898	43,744 ⁽⁸⁾	2,094,888
and Chief Information Officer								

(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 31, 2009, for a discussion of the assumptions underlying the valuation of stock options. The value of stock awards is based on the market price of JCPenney common stock on the date of grant. As discussed in Compensation Discussion and Analysis, none of the performance-based restricted stock unit awards granted in March 2008 were earned.

(2) The amounts shown in this column reflect payments made under the Company's Management Incentive Compensation Program.

(3) Effective with fiscal year 2008, the Company transitioned to a fiscal year-end measurement date with respect to its defined benefit pension and other postretirement plans in accordance with SFAS 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106 and 132(R)*. As a result, the amounts shown in this column for 2008 reflect the aggregate change in the actuarial present value from October 31, 2007 to January 31, 2009 (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)

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The amount shown in this column for Mr. Ullman includes Company contributions or allocations to Mr. Ullman's account in the Savings Plan for fiscal 2008 of \$10,500. 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, which is discussed under Director Compensation for Fiscal 2008. It also includes \$43,433 for amounts paid by the Company in respect of taxes imputed to Mr. Ullman for personal use of corporate aircraft and ground transportation. The amount shown further includes the value of the following perquisites received by Mr. Ullman: personal use of corporate aircraft, \$458,078; ground transportation, \$5,131; home security systems, \$740; and financial counseling, \$9,380. For a discussion of the valuation of perquisites, see Compensation Discussion and Analysis.

- (5) The amount shown in this column for Mr. Cavanaugh includes Company contributions or allocations to Mr. Cavanaugh's accounts in the Savings Plan and Mirror Savings Plan for fiscal 2008 of \$12,525 and \$15,300, respectively. The amount shown also includes \$10,647 for financial counseling services received by Mr. Cavanaugh.

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- (6) The amount shown in this column for Mr. Hicks includes Company contributions or allocations to Mr. Hicks' account in the Savings Plan for fiscal 2008 of \$12,150. It also includes \$9,380 for financial counseling services received by Mr. Hicks.
- (7) The amount shown in this column for Mr. Theilmann includes Company contributions or allocations to Mr. Theilmann's account in the Savings Plan for fiscal 2008 of \$12,875. It also includes \$9,380 for financial counseling services and \$1,777 for annual health exam services received by Mr. Theilmann.
- (8) The amount shown in this column for Mr. Nealon includes Company contributions or allocations to Mr. Nealon's account in the Savings Plan for fiscal 2008 of \$13,001. It also includes \$17,084 for personal use of corporate aircraft, \$13,550 for financial counseling services received by Mr. Nealon and \$109 for reimbursement of travel and other out of pocket expenses related to such services.

The following table sets forth for each of the named executive officers the percentage of total compensation attributable to cash compensation (base salary and annual cash incentive compensation) for fiscal 2008.

Name	% of Total Compensation Attributable to Cash Compensation for 2008
Myron E. Ullman, III	29%
Robert B. Cavanaugh	41%
Ken C. Hicks	36%
Michael T. Theilmann	38%
Thomas M. Nealon	35%

Table of Contents**GRANTS OF PLAN-BASED AWARDS FOR FISCAL 2008**

Name	Grant Date ⁽¹⁾	Date of Committee Approval	Estimated Future Payouts Under Non-Equity Incentive Plan Awards ⁽²⁾			Estimated Future Payouts Under Equity Incentive Plan Awards ⁽³⁾			All Other Stock Awards; Number of Shares of Stock or Units (#)	All Other Option Awards; Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards (\$/share)	Grant Date Fair Value of Stock and Option Awards (\$) ⁽⁴⁾
			Thres-hold (\$)	Target (\$)	Maximum (\$)	Thres-hold (#)	Target (#)	Maximum (#)				
Myron E. Ullman, III	3/12/08	3/7/08				0	50,277	100,554				2,000,019
	3/12/08	3/7/08							50,277			2,000,019
	3/12/08	3/7/08								287,770	39.78	4,000,003
	12/15/08	12/10/08				0	300,000	500,000				3,458,468 ⁽⁵⁾
	N/A			0	1,875,000	3,750,000						
Robert B. Cavanaugh	3/12/08	3/7/08				0	9,113	18,226				362,515
	3/12/08	3/7/08							9,113			362,515
	3/12/08	3/7/08								52,158	39.78	724,996
	7/24/08	7/21/08								50,000	30.88	461,000
	11/20/08	11/17/08								25,000	14.38	160,250
	N/A			0	525,000	1,050,000						
Ken C. Hicks	3/12/08	3/7/08				0	20,833	41,666				828,737
	3/12/08	3/7/08							20,833			828,737
	3/12/08	3/7/08								119,245	39.78	1,657,506
	7/24/08	7/21/08								225,000	30.88	2,074,500
	11/20/08	11/17/08								225,000	14.38	1,442,250
N/A			0	900,000	1,800,000							
Michael T. Theilmann	3/12/08	3/7/08				0	7,950	15,900				316,251
	3/12/08	3/7/08							7,950			316,251
	3/12/08	3/7/08								45,504	39.78	632,506
	7/24/08	7/21/08								100,000	30.88	922,000
	11/20/08	11/17/08								100,000	14.38	641,000
	N/A			0	450,000	900,000						
Thomas M. Nealon	3/12/08	3/7/08				0	4,713	9,426				187,483
	3/12/08	3/7/08							4,713			187,483
	3/12/08	3/7/08							12,569			499,995
	3/12/08	3/7/08								26,978	39.78	374,994
	7/24/08	7/21/08								100,000	30.88	922,000
	11/20/08	11/17/08								100,000	14.38	641,000
	N/A			0	262,500	525,000						

- (1) The Human Resources and Compensation Committee of the Board has adopted a policy 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 awards under the Company's Management Incentive Compensation Program.
- (3) Grants of awards under the Company's 2005 Equity Compensation Plan. Payouts represent the number of performance-based restricted stock units to be received at threshold, target and maximum award levels.
- (4) The grant date value is calculated in accordance with Financial Accounting Standards Board Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment*. As discussed in Compensation Discussion and Analysis, none of the performance-based restricted stock unit awards granted in March 2008 were earned. In addition, based on the closing market price of the Company's common

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stock as of the end of fiscal 2008, except for the November 20, 2008 grant, the stock options granted in 2008 were under water.

- (5) The closing market price of JCPenney common stock on the date of grant of Mr. Ullman's December performance-based restricted stock unit award was \$19.58.

Table of Contents**OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END 2008**

Name	Option Awards				Stock Awards			Equity
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	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 (\$) ⁽¹⁾	Equity Incentive Plan Awards: Number of Shares, Units or Other Rights that Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights that Have Not Vested (\$) ⁽¹⁾
Myron E. Ullman, III								
2004					84,878 ⁽²⁾	1,421,707		
2004					32,119 ⁽³⁾	537,993		
2006	125,156	62,579	60.50	3/21/16	34,162	572,214		
2007	67,170	134,341	78.50	3/13/17				
2008		287,770	39.78	3/11/18	51,265	858,689	300,000	5,025,000
Robert B. Cavanaugh								
1999								