

NOMURA HOLDINGS INC  
Form POSASR  
September 08, 2010  
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As filed with the Securities and Exchange Commission on September 8, 2010

Registration No. 333-165049

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Post-Effective Amendment No. 1**

**to**

**FORM F-3**

**REGISTRATION STATEMENT**

*UNDER*

*THE SECURITIES ACT OF 1933*

**NOMURA HORUDINGUSU KABUSHIKI KAISHA**

(Exact Name of Registrant as Specified in its Charter)

**NOMURA HOLDINGS, INC.**

(Translation of Registrant's Name into English)

**Japan**

(State or Other Jurisdiction of Incorporation or Organization)

None

**(I.R.S. Employer Identification Number)**

**9-1, Nihonbashi 1-chome**

**Chuo-ku, Tokyo 103-8645**

**Japan**

**(81-3-5255-1000)**

**(Address and Telephone Number of**

**Registrant's Principal Executive Offices)**

**Nomura Holding America Inc.**

**2 World Financial Center, Building B**

**New York, New York 10281-1198**

**(212-667-9300)**

**(Name, Address and Telephone Number of Agent for Service)**

*Copy To:*

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**Japan**

**Approximate date of commencement of proposed sale to the public:** From time to time after the effective date of this registration statement.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

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If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this Form is a registration statement pursuant to General Instruction I.C. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box. x

If this Form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.C. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box. "

### CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to Be Registered	Amount to Be Registered(1)(2)	Proposed Maximum	Proposed Maximum	Amount of Registration Fee(1)
		Offering Price Per Unit(1)	Aggregate Offering Price(1)	
Senior Debt Securities				

- (1) An indeterminate aggregate initial offering price or number of the securities is being registered as may from time to time be offered at indeterminate prices. In accordance with Rules 456(b) and 457(r), the Registrant is deferring payment of all of the registration fee.
- (2) This registration statement also covers an undeterminable amount of the registered securities that may be reoffered and resold on an ongoing basis after their initial sale in market-making transactions by affiliates of the Registrant. All such market-making reoffers and resales that are made pursuant to a registration statement after the effectiveness of this registration statement are being made solely pursuant to this registration statement.

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**EXPLANATORY NOTE**

This Post-Effective Amendment No. 1 to the Registration Statement on Form F-3 (Registration No. 333-165049) of Nomura Holdings, Inc. is being filed for the purpose of: (i) amending the prospectus that forms a part of the Registration Statement, and (ii) filing additional exhibits to the Registration Statement, including a form of amended and restated senior debt indenture. This Post-Effective Amendment No. 1 shall become effective immediately upon filing with the Securities and Exchange Commission.

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**PROSPECTUS**

**Nomura Holdings, Inc.**

**Senior Debt Securities**

We, Nomura Holdings, Inc., a joint stock company incorporated with limited liability under the laws of Japan, from time to time may offer to sell our senior debt securities. This prospectus describes some of the general terms that may apply to these securities and the general manner in which they may be offered. The specific terms of any securities to be offered, and the specific manner in which they may be offered, will be described in a supplement to this prospectus.

The securities are not bank deposits and are not insured by the Federal Deposit Insurance Corporation or any other governmental agency, nor are they obligations of, or guaranteed by, a bank.

We may offer and sell the securities on a continuous or delayed basis directly to investors or through underwriters, dealers or agents, including the firm named below, or through a combination of these methods. The names of any underwriters, dealers or agents will be included in a prospectus supplement. If any underwriters, dealers or agents are involved in the sale of any securities, the applicable prospectus supplement will set forth any applicable commissions or discounts.

**You should carefully consider the risk factors beginning on page 3 of, and incorporated by reference into, this prospectus and in any applicable prospectus supplement(s) before you invest in any of our securities.**

**NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.**

We may use this prospectus in the initial sale of the senior debt securities. In addition, Nomura Securities International, Inc. or any other of our affiliates may use this prospectus in a market-making transaction in any of these or similar securities after its initial sale. ***Unless we or our agent inform the purchaser otherwise in the confirmation of sale, this prospectus is being used in a market-making transaction.***

## Nomura

The date of this prospectus is September 8, 2010.

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**You should rely only on the information contained in or incorporated by reference into this prospectus or any prospectus supplement. We have not authorized anyone to provide you with information different from that contained in or incorporated by reference in this prospectus or any prospectus supplement. We are offering to sell the securities only in jurisdictions where offers and sales are permitted. The information contained in or incorporated by reference in this prospectus or any prospectus supplement is accurate only as of the date on the front of those documents, regardless of the time of delivery of the documents or any sale of the securities.**

The senior debt securities have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended), or the Financial Instruments and Exchange Act , and are subject to the Act on Special Measures Concerning Taxation of Japan (Act No. 26 of 1957, as amended), or the Special Taxation Measures Act . The senior debt securities may not be offered or sold in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and any other applicable laws, regulations and governmental guidelines of Japan. In addition, the senior debt securities are not, as part of the initial distribution by the underwriters, dealers and agents, including our affiliates, to be directly or indirectly offered or sold in Japan or to, or for the benefit of, (i) any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan but excluding certain financial institutions defined in Article 6, paragraph 9 of the Special Taxation Measures Act and any other excluded category of persons, corporations or other entities under the Special Taxation Measures Act), or (ii) any individual non-resident of Japan or non-Japanese corporation that in either case is a person having a special relationship with us as described in Article 6, paragraph 4 of the Special Taxation Measures Act (such person is hereinafter referred to as a specially-related person of ours ), or to others for reoffering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan or specially-related person of ours. **By subscribing for the senior debt securities, the investor will be deemed to have represented that it is not a person, corporation or other entity referred to in item (i) or (ii) above.**

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**ABOUT THIS PROSPECTUS**

The term *Nomura* refers to Nomura Holdings, Inc. The terms *we*, *our*, and *us* refer to Nomura and, unless the context requires otherwise, will include Nomura's subsidiaries.

Nomura's financial statements, which are incorporated by reference into this prospectus, have been prepared in accordance with accounting principles generally accepted in the United States of America, which we refer to as U.S. GAAP. Nomura's financial statements are denominated in Japanese yen, the legal tender of Japan. When we refer to *yen* or *¥*, we mean Japanese yen. When we refer to *\$*, we mean U.S. dollars.

This prospectus is part of a registration statement on Form F-3 which we filed with the Securities and Exchange Commission, or SEC, using a shelf registration process. Under this shelf process, we may sell any combination of the securities described in this prospectus in one or more offerings. This prospectus provides you with a general description of the securities we may offer. The specific terms of any securities we offer will be included in a supplement to this prospectus. A supplement to this prospectus may be in the form of one or more prospectus supplements, pricing supplements or free writing prospectuses, any and all of which are referred to herein as a prospectus supplement or supplement to this prospectus. The prospectus supplement will also describe the specific manner in which we will offer the securities. The prospectus supplement may also add, update or change information contained in this prospectus. You should read both this prospectus and any prospectus supplement together with the additional information described under the heading *Where You Can Find More Information*.

**FORWARD-LOOKING STATEMENTS**

This prospectus, any prospectus supplement and the information incorporated by reference in this prospectus include forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. In addition, in the future we, and others on our behalf, may make statements that constitute forward-looking statements. You should not place undue reliance on any of these statements. Such forward-looking statements may include, without limitation, statements relating to the following:

our plans, objectives or goals;

our future economic performance or prospects;

the potential effect on our future performance of certain contingencies; and

assumptions underlying any such statements.



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Words such as believe, anticipate, expect, intend and plan and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements. We do not intend to update these forward-looking statements except as may be required by applicable securities laws.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that predictions, forecasts, projections and other outcomes described or implied in forward-looking statements will not be achieved. We caution you that a number of important factors could cause results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include:

market and interest rate fluctuations;

the strength of the global economy in general and the strength of the economies of the countries in which we conduct our operations in particular;

the ability of counterparties to meet their obligations to us;

the effects of, and changes in, fiscal, monetary, trade and tax policies, and currency fluctuations;

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political and social developments, including war, civil unrest or terrorist activity;

the possibility of foreign exchange controls, expropriation, nationalization or confiscation of assets in countries in which we conduct our operations;

changes in the monetary and interest rate policies of the Bank of Japan and other central banks;

the ability to maintain sufficient liquidity and access to capital markets;

operational factors such as systems failure, human error or the failure to properly implement procedures;

actions taken by regulators with respect to our business and practices in one or more of the countries in which we conduct our operations;

the effects of changes in laws, regulations or accounting policies or practices;

competition in geographic and business areas in which we conduct our operations;

the ability to retain and recruit qualified personnel;

the ability to increase market share and control expenses;

acquisitions, including the ability to integrate successfully acquired businesses; and

our success at managing the risks involved in the foregoing.

We caution you that the foregoing list of important factors is not exhaustive. When evaluating forward-looking statements, you should carefully consider the foregoing factors and other uncertainties and events, the risk factors and other information contained in or incorporated by reference in this prospectus, as well as the risk factors relating to us, a particular security offered by this prospectus or a particular offering discussed in the applicable prospectus supplement.

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**WHERE YOU CAN FIND MORE INFORMATION**

**Available Information**

We file annual reports and other information with the SEC. You may read and copy any document we file at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the Public Reference Room. In addition, the SEC maintains an Internet site at <http://www.sec.gov> that contains information regarding issuers that file electronically with the SEC.

We have filed with the SEC a registration statement on Form F-3 relating to the securities covered by this prospectus. This prospectus is part of the registration statement and does not contain all the information in the registration statement. Whenever a reference is made in this prospectus to a contract or other document, please be aware that the reference is not necessarily complete and that you should refer to the exhibits that are part of the registration statement for a copy of the applicable contract or other document. You may review a copy of the registration statement at the SEC's Public Reference Room in Washington, D.C. as well as through the SEC's Internet site noted above.

**Incorporation of Documents by Reference**

The SEC's rules allow us to incorporate by reference the information we file with the SEC, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is an important part of this prospectus, and information that we file after the date of this prospectus with the SEC and which is incorporated by reference will automatically update and supersede the information contained in this prospectus or incorporated by reference in this prospectus.

We are incorporating by reference (i) our annual report on Form 20-F for the fiscal year ended March 31, 2010 filed with the SEC on June 29, 2010; (ii) our amended annual report on Form 20-F/A for the fiscal year ended March 31, 2010 filed with the SEC on July 28, 2010 and (iii) our current report on Form 6-K submitted to the SEC on August 31, 2010.

All annual reports on form 20-F filed with the SEC after the date of this prospectus will be incorporated by reference to this prospectus. In addition, our reports on Form 6-K submitted to the SEC after the date of this prospectus (or portions thereof) will be incorporated by reference in this prospectus only to the extent that the reports expressly state that we incorporate them (or such portions) by reference in this prospectus.

Each person, including any beneficial owner, to whom this prospectus is delivered may request a copy of items incorporated by reference, at no cost, by writing or telephoning us at our principal executive offices at Nomura Holdings, Inc., 9-1 Nihonbashi 1-chome, Chuo-ku, Tokyo 103-8645, Japan; Telephone: 81-3-5255-1000; Attention: Group Treasury Department.

Except as described above, no other information is incorporated by reference in this prospectus, including, without limitation, information on our website.



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### **SUMMARY**

*This summary highlights key information described in greater detail elsewhere, or incorporated by reference, in this prospectus. You should read carefully the entire prospectus and the documents incorporated by reference and any applicable prospectus supplement before making an investment decision.*

#### **Nomura Holdings, Inc.**

We are one of the leading financial services firms in Japan and have worldwide operations. As of March 31, 2010, we operated offices in over 30 countries and regions including Japan, the United States, the United Kingdom, Singapore and Hong Kong. For further information, see Information on the Company in Item 4 of our most recent annual report on Form 20-F, which is incorporated by reference into this prospectus.

#### **Senior Debt Securities**

For any particular series of senior debt securities we offer, the applicable prospectus supplement will describe the title and series of the senior debt securities, the aggregate principal amount and the original issue price; the stated maturity; the redemption terms, if any; the rate or manner of calculating the rate and the payment dates for interest, if any; the amount or manner of calculating the amount payable at maturity and whether that amount may be paid by delivering cash, securities or other property; and any other specific terms. The senior debt securities will be issued under the amended and restated senior debt indenture between us and Deutsche Bank Trust Company Americas, as trustee. We have summarized the general features of the amended and restated senior debt indenture under the heading Description of Senior Debt Securities .

#### **Form of Securities**

We will issue the securities in book-entry form through one or more depositories, such as The Depository Trust Company, or DTC, Euroclear Bank S.A./N.V., or Euroclear, or Clearstream Banking, société anonyme, or Clearstream, named in the applicable prospectus supplement. Each sale of a security in book-entry form will settle in immediately available funds through the applicable depository, unless otherwise stated. We will generally issue the securities in registered form, without coupons. We may, however, issue the securities in bearer form if so specified in the applicable prospectus supplement.

#### **Payment Currencies**

Amounts payable in respect of the securities, including the original issue price, will be payable in U.S. dollars, unless otherwise set forth in the applicable prospectus supplement.

#### **Listing**

The applicable prospectus supplement will contain information, where applicable, as to any listing on any stock exchange of the securities covered by the applicable prospectus supplement.

**Use of Proceeds**

We intend to use the net proceeds from the sales of the securities to provide additional funds for our operations and for other general corporate purposes, unless otherwise set forth in the applicable prospectus supplement or pricing supplement.

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### **Manner of Offering**

The securities will be offered in connection with their initial issuance or in market-making transactions by our affiliates after initial issuance. When we issue new securities, we may offer them for sale to or through underwriters, dealers and agents, including our affiliates, or directly to purchasers. The applicable prospectus supplement will include any required information about the firms we use and the discounts or commissions we may pay them for their services.

Our affiliates that we refer to above may include, among others, Nomura Securities International, Inc., for offers and sales in the United States, and Nomura International plc, for offers and sales outside the United States.

### **Conflicts of Interest**

To the extent an initial offering of the securities will be distributed by one of our affiliates, each such offering of securities will be conducted in compliance with the requirements of NASD Rule 2720 of the Financial Industry Regulatory Authority, or FINRA, regarding a FINRA member firm's distribution of securities of an affiliate. See Plan of Distribution (Conflicts of Interest).

Our registered head office is located at 9-1, Nihonbashi 1-chome, Chuo-ku, Tokyo 103-8645, Japan. You can reach us by phone at +81-(3)-5255-1000 or by facsimile at +81-(3)-3274-4496. Our website is located at <http://www.nomura.com>. The information contained on our website is not part of this prospectus.

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**RISK FACTORS**

*Investing in the senior debt securities offered using this prospectus involves risk. You should consider carefully the risks described below, together with the risks described in the documents incorporated by reference into this prospectus and any risk factors included in any prospectus supplement to this prospectus, before you decide to buy our senior debt securities. If any of these risks actually occur, our business, financial condition and results of operations could suffer, and the trading price and liquidity of the securities offered using this prospectus could decline, in which case you may lose all or part of your investment.*

*For a discussion of the risk factors affecting us and our business, you should also read the **Risk Factors** section of our most recent annual report on Form 20-F, which is incorporated by reference in this prospectus, or similar sections in subsequent reports incorporated by reference into this prospectus.*

**Risks Relating to Foreign Currency**

*The following risk factors should be primarily considered by investors located in the United States or investors outside of the United States wishing to receive payments in U.S. dollars. Similar risks may apply to those investors who invest in currencies other than the currencies of their home jurisdictions or the currencies in which the investors wish to receive payments.*

***An Investment in Our Securities May Involve Currency-Related Risks***

An investment in a currency other than the currency of the investor's home jurisdiction and/or in a currency other than the currency in which an investor wishes to receive funds entails significant risks that are not associated with a similar investment in a security not subject to currency-related risks. These risks include the possibility of significant changes in rates of exchange between foreign currencies or composite currencies and the possibility of the imposition or modification of foreign exchange controls or other conditions by the United States, Japan or other non-U.S. governments. These risks generally depend on factors over which we have no control, such as economic and political events and the supply of and demand for the relevant currencies in the global markets.

***Changes in Currency Exchange Rates Can Be Volatile and Unpredictable***

Rates of exchange between currencies have been highly volatile, and this volatility may continue in the future. Fluctuations in currency exchange rates could adversely affect an investment in a security denominated in, or whose value is otherwise linked to, a specified currency other than U.S. dollars. Depreciation of the specified currency against the U.S. dollar could result in a decrease in the U.S. dollar-equivalent value of payments on the security, including the principal payable at maturity or settlement value payable upon exercise. That in turn could cause the market value of the senior debt security to fall. Depreciation of the specified currency against the U.S. dollar could result in a loss to the investor on a U.S. dollar basis.

***Government Policy Can Adversely Affect Foreign Currency Exchange Rates and an Investment in a Non-U.S. Dollar Security***



Foreign currency exchange rates can either float or be fixed by sovereign governments. From time to time, governments use a variety of techniques, such as intervention by a country's central bank or imposition of regulatory controls or taxes, to affect the exchange rate of their currencies. Governments may also issue a new currency to replace an existing currency or alter the exchange rate or exchange characteristics by devaluation or revaluation of a currency. Even in the absence of governmental action directly affecting currency exchange rates, political or economic developments in the country issuing the specified currency for a non-U.S. dollar security or elsewhere could lead to significant and sudden changes in the exchange rate between the U.S. dollar and the specified currency. These changes could affect the value of the security as participants in the global currency markets move to buy or sell the specified currency or U.S. dollars in reaction to these developments.

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Governments have imposed from time to time and may in the future impose exchange controls or other conditions, including taxes, with respect to the exchange or transfer of a specified currency that could affect exchange rates as well as the availability of a specified currency for a security at its maturity or on any other payment date. In addition, the ability of a holder to move currency freely out of the country in which payment in the currency is received or to convert the currency at a freely determined market rate could be limited by governmental actions.

### ***Non-U.S. Dollar Securities May Permit Us to Make Payments in U.S. Dollars If We Are Unable to Obtain the Specified Currency***

Securities payable in a currency other than U.S. dollars may provide that, if the other currency is subject to convertibility, transferability, market disruption or other conditions affecting its availability at or about the time when a payment on the securities comes due because of circumstances beyond our control, we will be entitled to make the payment in U.S. dollars. These circumstances could include the imposition of exchange controls or our inability to obtain the other currency because of a disruption in the currency markets. If we made payment in U.S. dollars, the exchange rate we would use would be determined in the manner described under *Description of Senior Debt Securities Payment Mechanics for Senior Debt Securities Payments Due in non-U.S. Currencies When the Specified Currency Is Not Available*. A determination of this kind may be based on limited information and would involve significant discretion on the part of our exchange rate agent, which may be an affiliate of ours. As a result, the value of the payment in U.S. dollars an investor would receive on the payment date may be less than the value of the payment the investor would have received in the other currency if it had been available, or may be zero. In addition, a government may impose extraordinary taxes on transfers of a currency. If that happens we will be entitled to deduct these taxes from any payment on securities payable in that currency.

### ***We Will Not Adjust Non-U.S. Dollar Securities to Compensate for Changes in Foreign Currency Exchange Rates***

Except as described above, we will not make any adjustment or change in the terms of a non-U.S. dollar security in the event of any change in foreign currency exchange rates for the relevant currency, whether in the event of any devaluation, revaluation or imposition of exchange or other regulatory controls or taxes or in the event of other developments affecting that currency, the U.S. dollar or any other currency. Consequently, investors in non-U.S. dollar securities will bear the risk that their investment may be adversely affected by these types of events.

### ***In a Lawsuit for Payment on a Non-U.S. Dollar Security, an Investor May Bear Foreign Currency Exchange Risk***

Our senior debt securities will be governed by New York law. Under Section 27 of the New York Judiciary Law, a state court in the State of New York rendering a judgment on a security denominated in a currency other than U.S. dollars would be required to render the judgment in the specified currency; however, the judgment would be converted into U.S. dollars at the exchange rate prevailing on the date of entry of the judgment. Consequently, in a lawsuit for payment on a security denominated in a currency other than U.S. dollars, investors would bear currency exchange risk until judgment is entered, which could be a long time.

In courts outside of New York, investors may not be able to obtain judgment in a specified currency other than U.S. dollars. For example, a judgment for money in an action based on a non-U.S. dollar security in many other U.S. federal or state courts ordinarily would be enforced in the United States only in U.S. dollars. The date used to determine the rate of conversion of the currency in which any particular security is denominated into U.S. dollars will depend upon various factors, including which court renders the judgment.

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### ***Information About Foreign Currency Exchange Rates May Not Be Indicative of Future Performance***

If we issue a non-U.S. dollar security, we may include in the applicable prospectus supplement information about historical exchange rates for the relevant non-U.S. dollar currency or currencies. Any information about exchange rates that we may provide will be furnished as a matter of information only, and you should not regard the information as indicative of the range of, or trends in, fluctuations in currency exchange rates that may occur in the future. That rate will likely differ from the exchange rate used under the terms that apply to a particular security.

### ***Determinations Made by the Exchange Rate Agent***

All determinations made by the exchange rate agent will be made in its sole discretion (except to the extent expressly provided in this prospectus or in the applicable prospectus supplement that any determination is subject to approval by Nomura Holdings, Inc.). In the absence of manifest error, its determinations will be conclusive for all purposes and will bind all holders and us. The exchange rate agent will not have any liability for its determinations.

### **Risks Relating to Indexed Securities**

*We use the term indexed securities to mean any of the securities described in this prospectus the value of which is linked to an underlying asset or index or another property (including one or more securities or indices of securities). Indexed securities may present a high level of risk, and investors in certain indexed securities may lose their entire investment. In addition, the treatment of indexed securities for U.S. federal income tax purposes is often unclear due to the absence of any authority specifically addressing the issues presented by any particular indexed security. Thus, if you propose to invest in indexed securities, you should independently evaluate the federal income tax consequences of purchasing an indexed security that apply in your particular circumstances. You should also read Taxation United States Taxation for a discussion of U.S. tax matters.*

### ***Investors in Indexed Securities Could Lose Their Investment***

The amount of principal and/or interest payable on an indexed debt security and the cash value or physical settlement value of a physically settled debt security will be determined by reference to the price, value or level of one or more securities, currencies, commodities or other properties, any other financial, economic or other measure or instrument, including the occurrence or non-occurrence of any event or circumstance, one or more indices and/or one or more baskets of any of these items. We refer to each of these as an index. The direction and magnitude of the change in the price, value or level of the relevant index will determine the amount of principal and/or interest payable on an indexed debt security and the cash value or physical settlement value of a physically settled debt security. The terms of a particular indexed debt security may or may not include a guaranteed return of a percentage of the principal amount at maturity or a minimum interest rate. If you purchase an indexed security that does not guarantee the return of 100% of the principal or other amount you invest, you may lose all or a portion of the principal or other amount you invest and may receive no interest on your investment.

### ***The Return on Indexed Securities May Be Below the Return on Similar Securities***

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Depending on the terms of an indexed security, as specified in the applicable prospectus supplement, you may not receive any periodic interest payments or receive only very low payments on such indexed security. As a result, the overall return on such indexed security may be less than the amount you would have earned by investing the principal or other amount you invest in such indexed security in a non-indexed debt security that bears interest at a prevailing market fixed or floating rate.

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### ***The Issuer of a Security or Currency That Serves as an Index Could Take Actions That May Adversely Affect an Indexed Security***

The issuer of a security that serves as an index or part of an index for an indexed security will have no involvement in the offer and sale of the indexed security and no obligations to the holder of the indexed security. The issuer may take actions, such as a merger or sale of assets, without regard to the interests of the holder. Any of these actions could adversely affect the value of a security indexed to that security or to an index of which that security is a component.

If the index for an indexed security includes a non-U.S. dollar currency or other asset denominated in a non-U.S. dollar currency, the government that issues that currency will also have no involvement in the offer and sale of the indexed security and no obligations to the holder of the indexed security. That government may take actions that could adversely affect the value of the security. See *Risks Relating to Foreign Currency Government Policy Can Adversely Affect Foreign Currency Exchange Rates and an Investment in a Non-U.S. Dollar Security* above for more information about these kinds of government actions.

### ***An Indexed Security May Be Linked to a Volatile Index, Which May Adversely Affect Your Investment***

Some indices are highly volatile, which means that their value may change significantly, up or down, over a short period of time. It is impossible to predict the future performance of an index based on its historical performance. The amount of principal or interest that can be expected to become payable on an indexed debt security may vary substantially from time to time. Because the amounts payable with respect to an indexed security are generally calculated based on the price, value or level of the relevant index on a specified date or over a limited period of time, volatility in the index increases the risk that the return on the indexed security may be adversely affected by a fluctuation in the level of the relevant index.

The volatility of an index may be affected by financial, political, military or economic events, including governmental actions, or by the activities of participants in the relevant markets. Any of these events or activities could adversely affect the value of an indexed security.

### ***An Index to Which a Security Is Linked Could Be Changed or Become Unavailable***

Some indices compiled by us or our affiliates or third parties may consist of or refer to several or many different securities, commodities or currencies or other instruments or measures. The index sponsor of such an index typically reserves the right to alter the composition of the index and the manner in which the value or level of the index is calculated. Changes to the composition of an index may result in a decrease in the value of or return on an indexed security that is linked to such index. The indices for our indexed securities may include published indices of this kind or customized indices developed by us or our affiliates in connection with particular issues of indexed securities.

A published index may become unavailable, or a customized index may become impossible to calculate in the normal manner, due to events such as war, natural disasters, cessation of publication of the index or a suspension or disruption of trading in one or more securities, commodities or currencies or other instruments or measures on which the index is based. If an index becomes unavailable or impossible to calculate in the normal manner, the terms of a particular indexed security may allow us to delay determining the amount payable as principal or interest on that security, or we may use an alternative method to determine the value of the unavailable index. Alternative methods of valuation are generally intended to produce a value similar to the value resulting from reference to the relevant index. However, it is unlikely that any alternative method of valuation we use will produce a value identical to the value that the actual index would produce. If we use an alternative

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method of valuation for a security linked to an index of this kind, the value of the security, or the rate of return on it, may be lower than it otherwise would be.

Some indexed securities are linked to indices that are not commonly used or that have been developed only recently. The lack of a trading history may make it difficult to anticipate the volatility or other risks associated

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with an indexed security of this kind. In addition, trading in these indices or their underlying stocks, commodities or currencies or other instruments or measures, or options or futures contracts on these stocks, commodities or currencies or other instruments or measures, may be limited, which could increase their volatility and decrease the value of the related indexed securities or the rates of return on them.

### ***We May Engage in Hedging Activities that Could Adversely Affect an Indexed Security***

In order to hedge an exposure on a particular indexed security, we may, directly or through our affiliates, enter into transactions involving the securities, commodities or currencies or other instruments or measures that underlie the index for that security, or derivative instruments, such as swaps, options or futures, on the index or any of its component items. By engaging in transactions of this kind, we could adversely affect the value of an indexed security. It is possible that we could achieve substantial returns from our hedging transactions while the value of the indexed security may decline.

### ***Information About an Index or Indices May Not Be Indicative of Future Performance***

If we issue an indexed security, we may include historical information about the relevant index or indices in the applicable prospectus supplement. Any information about indices that we may provide will be furnished as a matter of information only, and you should not regard the information as indicative of the range of, or trends in, fluctuations in the relevant index or indices that may occur in the future.

### ***We May Have Conflicts of Interest Regarding an Indexed Security***

Nomura Securities International, Inc. and our other affiliates may have conflicts of interest with respect to some indexed securities. Nomura Securities International, Inc. and our other affiliates may engage in trading, including trading for hedging purposes, for their proprietary accounts or for other accounts under their management, in indexed securities and in the securities, commodities or currencies or other instruments or measures on which the index is based or in other derivative instruments related to the index or its component items. These trading activities could adversely affect the value of indexed securities. We and our affiliates may also issue or underwrite securities or derivative instruments that are linked to the same index as one or more indexed securities. By introducing competing products into the marketplace in this manner, we could adversely affect the value of an indexed security.

Nomura Securities International, Inc. or another of our affiliates may serve as calculation agent for the indexed securities and may have considerable discretion in calculating the amounts payable in respect of the securities. To the extent that Nomura Securities International, Inc. or another of our affiliates calculates or compiles a particular index, it may also have considerable discretion in performing the calculation or compilation of the index. Exercising discretion in this manner could adversely affect the value of an indexed security based on the index or the rate of return on the security.

***If You Purchase an Indexed Security, You Will Have No Rights with Respect to any Underlying Index to which Such Indexed Security is Linked***

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Investing in an indexed security will not make you a holder of the underlying asset or index or other property. As a result, you will not have any voting rights, any right to receive dividends or other distributions or any other rights with respect to any of the index components.

**You should also carefully consider any additional risks that are described in the applicable prospectus supplements.**



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**USE OF PROCEEDS**

We intend to use the net proceeds from the sale of the securities described in this prospectus for additional funds for our operations and other general corporate purposes, unless otherwise described in the applicable prospectus supplement or pricing supplement.

**Table of Contents****RATIO OF EARNINGS TO FIXED CHARGES**

Our ratios of earnings to fixed charges, and the amount of fixed charge deficiency, for the five fiscal years ended March 31, 2010, in accordance with U.S. GAAP, were as follows:

	<b>Fiscal year ended March 31,</b>				
	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Ratio of earnings to fixed charges	1.7	1.3			1.5
Fixed charge deficiency (millions of yen)			65,292	767,424	

For the purpose of calculating the ratio of earnings to fixed charges, and the amount of fixed charge deficiency, earnings consist of pre-tax income (loss) from continuing operations before adjustment for income or loss from equity investees, plus (i) fixed charges and (ii) distributed income of equity investees. Fixed charges consist of interest expense. Fixed charges exclude premium and discount amortization as well as interest expense, which are included in Net gain (loss) on trading. Fixed charges also exclude interest within rent expense, which is not significant.

For the fiscal years ended March 31, 2008 and 2009 because earnings were insufficient to cover fixed charges, only the yen amounts of the deficiencies are disclosed in the above table.

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**NOMURA HOLDINGS, INC.**

We are one of the leading financial services groups in Japan and have worldwide operations. As of March 31, 2010, we operated offices in over 30 countries and regions including Japan, the United States, the United Kingdom, Singapore and Hong Kong Special Administrative Region through our subsidiaries. Our clients include individuals, corporations, financial institutions, governments and governmental agencies.

Our business consists of the following three divisions:

Retail principally investment consultation services to retail clients;

Wholesale principally serving corporations and institutional investors with a broad range of products and services:

Global Markets principally fixed income and equity trading and asset finance businesses;

Investment Banking principally M&A advisory, corporate finance, solutions and merchant banking businesses; and

Asset Management principally development and management of investment trusts, and investment advisory services.

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**DESCRIPTION OF SENIOR DEBT SECURITIES**

In this section, references to **holders** mean those who own senior debt securities registered in their own names, on the books that we or the applicable trustee maintain for this purpose, and not those who own beneficial interests in senior debt securities registered in street name or in senior debt securities issued in book-entry form through one or more depositaries. When we refer to **you** in this prospectus, we mean those who invest in the securities being offered by this prospectus, whether they are the holders or only indirect owners of those securities. When we refer to **your securities** in this prospectus, we mean the securities in which you will hold a direct or indirect interest.

We may issue as many distinct series of securities as we wish. The provisions of the amended and restated senior debt indenture described below allow us not only to issue senior debt securities with terms different from those previously issued under the senior debt indenture, but also to re-open a previous issue of a series of senior debt securities and issue additional senior debt securities of that series. We may issue senior debt securities in amounts that exceed the total amount specified on the cover of the applicable prospectus supplement at any time without your consent and without notifying you.

Because this section is a summary, it does not describe every aspect of the senior debt securities. This summary is subject to and qualified in its entirety by reference to all the provisions of the amended and restated senior debt indenture, including definitions of certain terms used in the amended and restated senior debt indenture. Whenever we refer to particular sections or defined terms of the senior debt indenture in this prospectus or in the prospectus supplement, such sections or defined terms are incorporated by reference here or in the prospectus supplement. You must look to the amended and restated senior debt indenture for the most complete description of what we describe in summary form in this prospectus and in any prospectus supplement.

**General**

The following description of senior debt securities sets forth the material terms and provisions of the senior debt securities to which any prospectus supplement may relate. Our senior debt securities will be issued under an amended and restated senior debt indenture between us, as issuer, and Deutsche Bank Trust Company Americas, as trustee, a form of which is included as an exhibit to the registration statement of which this prospectus is a part. Any supplemental indentures will be submitted to the SEC on a Form 6-K or by a post-effective amendment to the registration statement of which this prospectus is a part.

When we refer to the **senior debt indenture** or the **trustee** with respect to any senior debt securities, we mean the amended and restated senior debt indenture under which those senior debt securities are issued and the trustee under that amended and restated senior debt indenture. When we refer to **senior debt securities** or a **series of senior debt securities**, we mean, respectively, senior debt securities or a series of senior debt securities issued under the senior debt indenture. When we refer to your prospectus supplement, we mean the prospectus supplement describing the specific terms of the senior debt security you purchase. The terms used in your prospectus supplement will have the meanings described in this prospectus, unless otherwise specified. The senior debt indenture and its associated documents contain the full legal text of the matters described in this section. The senior debt indenture and the senior debt securities are governed by New York law. The senior debt indenture is qualified under the Trust Indenture Act of 1939, as amended, or Trust Indenture Act. A form of the senior debt indenture is an exhibit to our registration statement. See **Where You Can Find More Information** above for information on how to obtain a copy.

We may issue senior debt securities in one or more series under our senior debt indenture. This section summarizes the material terms of the senior debt securities that are common to all senior debt securities and series of senior debt securities, although the prospectus supplement which describes the terms of each series of senior debt securities may also describe differences with the material terms summarized here.



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We may issue the senior debt securities as original issue discount securities, which will be offered and sold at a substantial discount below their stated principal amount. This prospectus describes, and the prospectus supplement relating to any original issue discount securities will describe, federal income tax consequences and other special considerations applicable to such securities. The senior debt securities may also be issued as indexed securities or securities denominated in non-U.S. dollar currencies or currency units, as described in more detail in the prospectus supplement relating to any of the particular senior debt securities. The prospectus supplement relating to specific senior debt securities will also describe certain additional tax considerations (if any) applicable to such senior debt securities.

*The specific terms of your senior debt security as described in your prospectus supplement will supplement and, if applicable, may modify or replace the general terms described in this section. The prospectus supplement relating to each series of senior debt securities will be attached to the front of this prospectus. If there are any differences between your prospectus supplement and this prospectus, your prospectus supplement will control. The statements we make in this section may not apply to your senior debt security.*

## **Issuable Amounts**

The senior debt indenture does not limit the aggregate principal amount of senior debt securities that we may issue or the number of series or the aggregate principal amount of any particular series of senior debt securities. We may issue senior debt securities at any time without your consent and without notifying you.

The senior debt indenture and the senior debt securities do not limit our ability to incur other indebtedness or to issue other securities. Also, we are not subject to financial or similar restrictions by the terms of the senior debt securities, except as described below under **Restriction on Certain Liens**.

## **Principal Amount, Stated Maturity and Maturity**

Unless otherwise stated, the principal amount of a senior debt security means the principal amount payable at its stated maturity, unless such amount is not determinable, in which case the principal amount of a senior debt security is its face amount. Any senior debt securities owned by us or any of our affiliates are not deemed to be outstanding for certain purposes.

The term **stated maturity** with respect to any senior debt security means the fixed date on which the principal amount of your senior debt security is scheduled to become due and payable. The principal of your senior debt security may become due and payable sooner, by reason of redemption or acceleration after a default or otherwise in accordance with the terms of your senior debt security. The date on which the principal of your senior debt security actually becomes due and payable, whether at the stated maturity or otherwise, is called the **maturity** of the principal.

We also use the terms **stated maturity** and **maturity** to refer to the dates when other payments become due and payable. For example, we may refer to a regular interest payment date when an installment of interest is scheduled to become due and payable as the **stated maturity** of that installment. When we refer to the **stated maturity** or the **maturity** of a senior debt security without specifying a particular payment, we mean the **stated maturity** or **maturity**, as the case may be, of the principal.

**Ranking**

The securities will not be secured by any of our property or assets or the property or assets of our subsidiaries. Thus, by owning a senior debt security, you are one of our unsecured creditors.

The securities will rank at least equally with all of our existing and future unsubordinated and, subject to the provisions set forth under **Restriction on Certain Liens** , unsecured obligations (except for obligations in respect of national and local taxes and certain other statutory exceptions). The senior debt indenture does not limit our ability to incur additional unsecured indebtedness.

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**Payment of Additional Amounts**

The Japanese government may require us to withhold or deduct amounts from payments on the principal (and premium, if any) or interest on the senior debt securities, as the case may be, for taxes, duties, assessments or governmental charges. If a withholding or deduction of this type is required, we may be required to pay you an additional amount so that the net amounts you receive after such withholding or deduction will be the amount specified in the security to which you are entitled.

Payments will be made without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of Japan or any authority thereof or therein, or Japanese taxes, unless such withholding or deduction is required by law. No additional amounts will be payable with respect to any senior debt security (a) to, or to a third party on behalf of, a holder who is an individual non-resident of Japan or a non-Japanese corporation and is liable for such Japanese taxes in respect of such senior debt security by reason of its (i) having some connection with Japan other than the mere holding of such senior debt security or (ii) being a specially-related person of ours; or (b) to, or to a third party on behalf of, a holder who would otherwise be exempt from any such withholding or deduction but who fails to comply with any applicable requirement to provide interest recipient information (as defined below) or to submit a written application for tax exemption (as defined below) to the paying agent to whom the senior debt securities are presented (if presentation is required), or whose interest recipient information is not duly communicated through the participant (as defined below) and the relevant depositary to such paying agent; or (c) to, or to a third party on behalf of, a holder who is for Japanese tax purposes treated as an individual resident of Japan or a Japanese corporation (except for (A) a designated financial institution (as defined below) which complies with the requirement to provide interest recipient information or to submit a written application for tax exemption and (B) an individual resident of Japan or a Japanese corporation who duly notifies (directly or through the participant or otherwise) the relevant paying agent of its status as exempt from Japanese taxes to be withheld or deducted by us by reason of such individual resident of Japan or Japanese corporation receiving interest on the relevant senior debt security through a payment handling agent in Japan appointed by it); or (d) if the senior debt securities are presented for payment (if presentation is required) more than 30 days after the date on which such payment first becomes due or after the date on which the full amount payable is duly provided for, whichever occurs later, except to the extent that the holder of the senior debt securities would have been entitled to such additional amounts on presenting the same for payment on the last day of such 30-day period; or (e) if such withholding or deduction is imposed on a payment to an individual holder and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or (f) to, or to a third party on behalf of a holder who would be able to avoid such withholding or deduction by presenting (if presentation is required) the senior debt securities to another paying agent; or (g) if the amount of interest on the senior debt securities is to be calculated by reference to certain indices (as prescribed by the cabinet order under Article 6, paragraph 4 of the Special Taxation Measures Act) relating to us or any specially-related person of ours, except if the recipient of interest is a designated financial institution which complies with the requirement to provide interest recipient information or to submit a written application for tax exemption; or (h) any combination of (a) through (g).

Additional amounts will not be paid with respect to any payment on the senior debt securities to or on behalf of a holder who is a fiduciary or partnership or other than the sole beneficial owner of such payment to the extent such payment would be required by the laws of Japan to be included in the income, for tax purposes, of a beneficiary or settlor with respect to such fiduciary or a member of such partnership or a beneficial owner who, in each case, would not have been entitled to the additional amounts had such beneficiary, settlor, member or beneficial owner been the holder of the senior debt securities. The obligation to pay additional amounts with respect to any taxes, duties, assessments or governmental charges will not apply to (A) any estate, inheritance, gift, sales, transfer, personal property or any similar tax, duty, assessment or governmental charge or (B) any tax, duty, assessment or governmental charge which is payable otherwise than by deduction or withholding from payments of principal of (and premium, if any) or interest on the senior debt securities. References to principal (and premium, if any) and interest in respect of the senior debt securities will be deemed to include any additional amounts due which may be payable in respect of the principal (or premium, if any) or interest.



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If senior debt securities are held through a participant of a depository or a financial intermediary, in each case, as prescribed by the Special Taxation Measures Act, each such participant or financial intermediary being referred to as a participant, in order to receive payments free of withholding or deduction by us for, or on account of, Japanese taxes, if the relevant beneficial owner is (A) an individual non-resident of Japan or a non-Japanese corporation (other than a specially-related person of ours) or (B) a Japanese financial institution or financial instruments business operator falling under certain categories prescribed by the cabinet order under Article 6, paragraph 9 of the Special Taxation Measures Act, or a designated financial institution, such beneficial owner shall, at the time of entrusting a participant with the custody of the relevant senior debt securities, provide certain information prescribed by the Special Taxation Measures Act and the cabinet order and other regulations thereunder to enable the participant to establish that such beneficial owner is exempted from the requirement for Japanese taxes to be withheld or deducted, or the interest recipient information, and advise the participant if the beneficial owner ceases to be so exempted (including where the beneficial owner who is an individual non-resident of Japan or a non-Japanese corporation becomes a specially-related person of ours).

If senior debt securities are not held by a participant, in order to receive payments free of withholding or deduction by us for, or on account of, Japanese taxes, if the relevant beneficial owner is (A) an individual non-resident of Japan or a non-Japanese corporation (other than a specially-related person of ours) or (B) a designated financial institution, such beneficial owner shall, prior to each time at which it receives interest, submit to the relevant paying agent a written application for tax exemption (*hikazei tekiyo shinkokusho*), in a form obtainable from the paying agent stating, inter alia, the name and address of the beneficial owner, the title of the senior debt securities, the relevant interest payment date, the amount of interest and the fact that the beneficial owner is qualified to submit the written application for tax exemption, together with documentary evidence regarding its identity and residence.

## **Governing Law**

The senior debt indenture is, and the senior debt securities will be, governed by, and construed in accordance with, New York law.

## **Consent to Service of Process and Submission to Jurisdiction**

Under the senior debt indenture, we designate Nomura Holding America Inc. (or any successor corporation) as our authorized agent for service of process in any legal action or proceeding arising out of or relating to the senior debt indenture or any senior debt securities brought in any state or Federal court in the Borough of Manhattan, The City of New York, New York, United States of America, and we irrevocably submit to the jurisdiction of those courts.

## **Currency of Senior Debt Securities**

Amounts that become due and payable on your senior debt security in cash will be payable in a currency, composite currency, basket of currencies or currency unit or units specified in your prospectus supplement. We refer to this currency, composite currency, basket of currencies or currency unit or units as a specified currency. The specified currency for your senior debt security will be U.S. dollars, unless your prospectus supplement states otherwise. Some senior debt securities may have different specified currencies for principal and interest. You will have to pay for your senior debt securities by delivering the requisite amount of the specified currency for the principal to Nomura Securities International, Inc. or another firm that we name in your prospectus supplement, unless other arrangements have been made between you and us or you and Nomura Securities International, Inc. We will make payments on your senior debt securities in the specified currency, except as described below in Payment Mechanics for Senior Debt Securities.

**Form of Senior Debt Securities**

We will issue each senior debt security in global, or book-entry, form only, without coupons, unless we specify otherwise in the applicable prospectus supplement. Senior debt securities in book-entry form will be

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represented by one or more global securities registered in the name of a depository, which will be the holder of all the senior debt securities represented by the global security. Those who own beneficial interests in a global senior debt security will do so through participants in the depository's securities clearing system, and the rights of these indirect owners will be governed solely by the applicable procedures of the depository and its participants. We describe book-entry securities below under [Legal Ownership and Book-Entry Issuance](#).

## **Authentication and Delivery**

At any time and from time to time after the execution and delivery of the senior debt indenture, we may deliver senior debt securities of any series to the trustee for authentication, and the trustee shall then authenticate and deliver such securities to or upon our written order, signed by an authorized officer of ours, without any further action by us. In authenticating the senior debt securities and accepting the additional responsibilities under the senior debt indenture, the trustee shall be entitled to receive, and shall be fully protected in relying upon, various documentation from us, including copies of the resolution of our board of directors authorizing the issuance of securities, any supplemental indenture, officer's certificates and opinions from legal counsel.

## **Types of Senior Debt Securities**

We may issue any of the three types of senior debt securities described below. A senior debt security may have elements of each of the three types of senior debt securities described below. For example, a senior debt security may bear interest at a fixed rate for some periods and at a floating rate in others. Similarly, a senior debt security may provide for a payment of principal at maturity linked to an index and also bear interest at a fixed or floating rate.

### ***Fixed Rate Senior Debt Securities***

A fixed rate senior debt security will bear interest at a fixed rate described in the applicable prospectus supplement. This type includes zero coupon senior debt securities, which bear no interest and are instead issued at a price lower than the principal amount. See [Original Issue Discount Senior Debt Securities](#) below for more information about zero coupon and other original issue discount senior debt securities.

Each fixed rate senior debt security, except any zero coupon senior debt security, will bear interest from its original issue date or from the most recent date to which interest on the senior debt security has been paid or made available for payment. Interest will accrue on the principal of a fixed rate senior debt security at the fixed rate per annum stated in the applicable prospectus supplement, until the principal is paid or made available for payment or the senior debt security is converted or exchanged. Each payment of interest due on an interest payment date or the date of maturity will include interest accrued from and including the last date to which interest has been paid, or made available for payment, or from the issue date if none has been paid or made available for payment, to but excluding the interest payment date or the maturity. We will compute interest on fixed rate senior debt securities on the basis of a 360-day year consisting of twelve 30-day months (30/360 (ISDA) day count convention), unless your prospectus supplement provides that we will compute interest on a different basis.

If your senior debt security is a zero coupon senior debt security, the applicable prospectus supplement may specify the original issue discount and the information necessary to determine the accreted value. The accreted value will be (1) as of any date prior to the stated maturity, an amount equal to the sum of (A) the original issue price of your senior debt security and (B) the portion of the excess of the principal amount of your senior debt security over the original issue price that shall have been accreted from the original issue price on a daily basis and compounded

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annually on a date specified in the applicable prospectus supplement, up to and including the stated maturity, at a rate that will be specified in the applicable prospectus supplement from the original issue date, computed on the basis of a 360-day year consisting of twelve 30-day months; and (2) as of any date on or after the stated maturity, the principal amount of your senior debt security.

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### *Floating Rate Senior Debt Securities*

A floating rate senior debt security will bear interest at rates that are determined by reference to an interest rate formula. In some cases, the rates may also be adjusted by adding or subtracting a spread or multiplying by a spread multiplier and may be subject to a minimum rate or a maximum rate. If your senior debt security is a floating rate senior debt security, the formula and any adjustments that apply to the interest rate will be specified in your prospectus supplement.

Each floating rate senior debt security will bear interest from its original issue date or from the most recent date to which interest on the senior debt security has been paid or made available for payment. Interest will accrue on the principal of a floating rate senior debt security at a rate per annum determined according to the interest rate formula stated in the applicable prospectus supplement, until the principal is paid or made available for payment.

**Calculation Agent.** Calculations relating to floating rate senior debt securities will be made by the calculation agent, an institution that we appoint as our agent for this purpose. That institution may include one of our affiliates. The prospectus supplement or the pricing supplement for a particular floating rate senior debt security will name the institution that we have appointed to act as the calculation agent for that senior debt security as of its original issue date. We may appoint a different institution to serve as calculation agent from time to time after the original issue date of the debt security without your consent and without notifying you of the change. Absent manifest error, all determinations of the calculation agent will be final and binding on you and us, without any liability on the part of the calculation agent.

**Calculation of Interest.** For each floating rate senior debt security, the calculation agent will determine, on the corresponding interest calculation or interest determination date, as described in the applicable prospectus supplement, the interest rate that takes effect on each interest reset date. In addition, the calculation agent will calculate the amount of interest that has accrued during each interest period i.e., the period from and including an interest payment date (or, with respect to the initial interest period, the original issue date) to but excluding the next succeeding interest payment date. For each interest period, the calculation agent will calculate the amount of accrued interest by multiplying the face or other specified amount of the floating rate senior debt security by an accrued interest factor for the interest period. Unless we specify otherwise in the applicable prospectus supplement, this factor will be equal to the number of days in the applicable interest period divided by 360 (Actual/360 (ISDA) day count convention).

Upon the request of the holder of any floating rate senior debt security, the calculation agent will provide for that senior debt security the interest rate then in effect and, if determined, the interest rate that will become effective on the next interest reset date. The calculation agent's determination of any interest rate, and its calculation of the amount of interest for any interest period, will be final and binding in the absence of manifest error.

All percentages resulting from any calculation relating to any senior debt security will be rounded upward or downward, as appropriate, to the next higher or lower one hundred-thousandth of a percentage point. All amounts used in or resulting from any calculation relating to a floating rate senior debt security will be rounded upward or downward, as appropriate, to the nearest cent, in the case of U.S. dollars, or to the nearest corresponding hundredth of a unit, in the case of a currency other than U.S. dollars, with one-half cent or one-half of a corresponding hundredth of a unit or more being rounded upward.

In determining the base rate that applies to a floating rate senior debt security during a particular interest period, the calculation agent may obtain rate quotes from various banks or dealers active in the relevant market, as described in the applicable prospectus supplement. Those reference banks and dealers may include the calculation agent itself and its affiliates, as well as any underwriter, dealer or agent participating in the

distribution of the relevant floating rate senior debt securities and its affiliates, and they may include our affiliates.

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### ***Indexed Senior Debt Securities***

An indexed senior debt security provides that the principal amount payable at its maturity, and/or the amount of interest payable on an interest payment date, will be determined by reference to:

securities of one or more issuers;

one or more currencies;

one or more commodities;

any other financial, economic or other measure or instrument, including the occurrence or non-occurrence of any event or circumstance;

one or more indices; and/or

one or more baskets of the items described above.

An indexed senior debt security may provide either for cash settlement or for physical settlement by delivery of the underlying security or another property of the type listed above. An indexed senior debt security may also provide that the form of settlement may be determined at our option or at the holder's option. Some indexed senior debt securities may be convertible, exercisable or exchangeable, at our option or at the holder's option, into or for our securities or securities of an issuer other than us.

If you purchase an indexed senior debt security, your prospectus supplement will include information about the relevant index or indices, about how amounts that are to become payable will be determined by reference to the price or value of that index or indices and about the terms on which the security may be settled physically or in cash. Your prospectus supplement will also identify the calculation agent that will calculate the amounts payable with respect to the indexed senior debt security and will have sole discretion in doing so.

### **Original Issue Discount Senior Debt Securities**

A fixed rate senior debt security, a floating rate senior debt security or an indexed senior debt security may be an original issue discount senior debt security. A senior debt security of this type is generally issued at a price lower than its principal amount and may provide that, upon redemption or acceleration of its maturity, an amount less than its principal amount may be payable. An original issue discount senior debt security may be a zero coupon senior debt security. However, a senior debt security may be treated as issued with original issue discount for U.S. federal income tax purposes regardless of whether the senior debt security is issued at a discount to its principal. See, "Taxation United States Taxation United States Holders Original Issue Discount" for a brief description of the U.S. federal income tax consequences of owning a debt security that is treated as issued with original issue discount for U.S. federal income tax purposes. Your prospectus supplement will state whether we intend to treat your senior debt security as issued with original issue discount for U.S. federal income tax purposes.

**Information in Your Prospectus Supplement**

Your prospectus supplement will describe the specific terms of your senior debt security, which will include some or all of the following:

the aggregate principal amount of your senior debt security or the senior debt securities of the same series, as applicable;

the stated maturity;

the specified currency or currencies for principal and interest and, if the specified currency is not U.S. dollars, certain other terms relating to your senior debt security;

the issue price at which we originally issue your senior debt security, expressed as a percentage of the principal amount, and the original issue date;



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whether your senior debt security is a fixed rate senior debt security, a floating rate senior debt security or an indexed senior debt security or any combination thereof;

if your senior debt security is a fixed rate senior debt security, a rate per annum at which your senior debt security will bear interest, if any, and the interest payment dates;

if your senior debt security is a floating rate senior debt security, the interest rate basis; any applicable index currency or index maturity, spread or spread multiplier or initial base rate, maximum rate or minimum rate; the interest reset, determination, calculation and payment dates; the day count convention used to calculate interest payments for any period; the business day convention; and the calculation agent;

if your senior debt security is an indexed senior debt security, the principal amount, if any, we will pay you at maturity, the amount of interest, if any, we will pay you on an interest payment date or the formula we will use to calculate these amounts, if any, and the terms on which your senior debt security will be exchangeable for or payable in cash, securities or other property;

if your senior debt security is also an original issue discount senior debt security, the yield to maturity;

if applicable, the circumstances under which your senior debt security may be redeemed at our option or repaid at the holder's option before the stated maturity, including any redemption commencement date, repayment date(s), redemption price(s) and redemption period(s);

the authorized denominations, if other than denominations of \$2,000, and any integral multiples of \$1,000 in excess thereof;

the depository for your senior debt security, if other than DTC, and any circumstances under which the holder may request securities in non-global form, if we choose not to issue your senior debt security in book-entry form only;

if we will pay you additional amounts with respect to withholding or deduction for or on account of taxes, duties, assessments or governmental charges imposed or levied in Japan;

if your senior debt security will be issued in bearer form, any special provisions relating to bearer securities that are not addressed in this prospectus;

the names and duties of any co-trustees, depositories, authenticating agents, paying agents, transfer agents or registrars for your senior debt security, as applicable;

any change in the actions permitted or required under the applicable senior debt indenture to be taken by or on behalf of the holders of the senior debt securities; and

any other terms of your senior debt security, which could be different from those described in this prospectus.

**Market-Making Transactions**

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One or more of our subsidiaries may purchase and resell senior debt securities in market-making transactions after their initial issuance. We may also purchase senior debt securities in the open market or in private transactions to be held by us or cancelled.

### **Redemption and Repayment**

Unless otherwise indicated in your prospectus supplement, your senior debt security will not be entitled to the benefit of any sinking fund that is, we will not deposit money on a regular basis into any separate custodial account to repay your senior debt securities. In addition, we will not be entitled to redeem your senior debt security before its stated maturity unless your prospectus supplement specifies a redemption commencement date. You will not be entitled to require us to buy your senior debt security from you, before its stated maturity, unless your prospectus supplement specifies one or more repayment dates.

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If your prospectus supplement specifies a redemption commencement date or a repayment date, it will also specify one or more redemption prices or repayment prices, which may be expressed as a percentage of the principal amount of your senior debt security. It may also specify one or more redemption periods during which the redemption prices relating to a redemption of senior debt securities during those periods will apply.

If your prospectus supplement specifies a redemption commencement date, your senior debt security will be redeemable at our option at any time on or after that date or at a specified time or times. If we redeem your senior debt security, we will do so at the specified redemption price, together with interest accrued to but excluding the redemption date. If different prices are specified for different redemption periods, the price we pay will be the price that applies to the redemption period during which your senior debt security is redeemed.

If your prospectus supplement specifies a repayment date, your senior debt security will be repayable at the holder's option on the specified repayment date at the specified repayment price, together with interest accrued to but excluding the repayment date.

If we exercise an option to redeem any senior debt security, we will give to the holder written notice of the principal amount of the senior debt security to be redeemed, not less than 30 days nor more than 60 days before the applicable redemption date. We will give the notice in the manner described below in "Notices".

If a senior debt security represented by a global senior debt security is subject to repayment at the holder's option, the depositary or its nominee, as the holder, will be the only person that can exercise the right to repayment. Any indirect owners who own beneficial interests in the global senior debt security and wish to exercise a repayment right must give proper and timely instructions to their banks or brokers through which they hold their interests, requesting that they notify the depositary to exercise the repayment right on their behalf. Different firms have different deadlines for accepting instructions from their customers, and you should take care to act promptly enough to ensure that your request is given effect by the depositary before the applicable deadline for exercise.

*Street name and other indirect owners should contact their banks or brokers for information about how to exercise a repayment right in a timely manner.*

We or our affiliates may purchase senior debt securities from investors who are willing to sell from time to time, either in the open market at prevailing prices or in private transactions at negotiated prices. Senior debt securities that we or they purchase may, at our discretion, be held, resold or canceled.

### ***Optional Tax Redemption***

In the event of changes to Japanese withholding tax law after the date of the applicable prospectus supplement, and in other limited circumstances that require us to pay additional amounts, as described in "Payment of Additional Amounts", we may call all, but not less than all, of the relevant senior debt securities for redemption.

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If we call the senior debt securities, we must pay you 100% of their principal amount (except in the case of certain original issue discount securities). We will also pay you accrued but unpaid interest through but not including the date fixed for redemption and any related additional amounts due on the date fixed for redemption. Senior debt securities will stop bearing interest on the redemption date, even if you do not collect your money. We will give notice to the depository of any redemption we propose to make at least 45 days, but not more than 60 days, before the redemption date. Notice by the depository to participating institutions and by these participants to street name holders of indirect interests in the senior debt securities will be made according to arrangements among them and may be subject to statutory or regulatory requirements.

Prior to giving notice of a tax redemption, we will deliver to the trustee (i) a certificate signed by a duly authorized officer stating that we are entitled to effect such redemption and setting forth a statement of facts

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showing that the conditions precedent to our right to so redeem have occurred, and (ii) an opinion of independent legal counsel of recognized standing to the effect that we are or would be required to pay additional amounts as a result of such change in Japanese law.

## **Mergers and Similar Transactions**

We are generally permitted to consolidate with or merge into another corporation or other entity. We are also permitted to convey, transfer or lease our properties and assets substantially as an entirety to another corporation or other entity. With regard to any series of senior debt securities, however, we may not take any of these actions unless all the following conditions are met:

If the successor entity in the transaction is not Nomura Holdings, Inc., the successor entity must be organized and validly existing as a corporation, partnership or trust and must expressly assume our obligations under the senior debt securities of that series and the underlying senior debt indenture with respect to that series. The successor entity may be organized under the laws of any jurisdiction, whether in Japan, the United States or elsewhere.

Immediately after giving effect to the transaction, no default under the senior debt securities of that series has occurred and is continuing. For this purpose, default under the senior debt securities of that series means an event of default with respect to that series or any event that would be an event of default with respect to that series if the requirements for giving us default notice and for our default having to continue for a specific period of time were disregarded. We describe these matters below under Default, Remedies and Waiver of Default .

If the conditions described above are satisfied with respect to the senior debt securities of any series, we will not need to obtain the approval of the holders of those senior debt securities in order to merge or consolidate or to convey, transfer or lease our properties and assets. Also, these conditions will apply only if we wish to merge or consolidate with another entity or convey, transfer or lease our properties and assets substantially as an entirety to another entity. We will not need to satisfy these conditions if we enter into other types of transactions, including any transaction in which we acquire the stock or assets of another entity, any transaction that involves a change of control of Nomura Holdings, Inc., or any share-for-share exchange (*kabushiki-kokan*), share transfer (*kabushiki-iten*) or corporate split (*kaisha bunkatsu*) pursuant to the Companies Act of Japan, but in which we do not merge or consolidate and any transaction in which we convey, transfer or lease less than substantially all our properties and assets.

Also, if we merge, consolidate or sell our assets substantially as an entirety, neither we nor any successor would have any obligation to compensate you for any resulting adverse tax consequences relating to your senior debt securities.

## **Restriction on Certain Liens**

We will not, so long as any senior debt securities remain outstanding, create or permit to be outstanding any mortgage, charge, pledge or other security interest upon the whole or any part of our property, assets or revenues, present or future, to secure for the benefit of the holders of any External Indebtedness (i) payment of any sum due in respect of any External Indebtedness or (ii) any payment under any guarantee of any External Indebtedness or (iii) any payment under any indemnity or other like obligation relating to any External Indebtedness, without in any such case at the same time according to the senior debt security either the same security as is granted to or is outstanding in respect of such External Indebtedness or guarantee of or indemnity or other like obligation in respect of External Indebtedness or such other security, guarantee of or indemnity or other like obligation as shall be approved with the consent of the holders of a majority in principal amount of all senior debt securities at the time outstanding (considered together as one class for this purpose).

For the purpose of this subsection, External Indebtedness means any indebtedness represented by bonds, debentures, notes or other similar investment securities with a stated maturity of more than one year from the creation thereof, which (a) are either (i) by their terms payable, or confer a right to receive payment, in any

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currency other than Japanese yen or (ii) denominated in Japanese yen and more than 50% of the aggregate principal amount thereof is initially distributed outside Japan by or with the authorization of the issuer thereof; and (b) are for the time being, or are intended to be, quoted, listed, ordinarily dealt in or traded on any stock exchange or over-the-counter or other securities market outside Japan.

### **Defeasance and Covenant Defeasance**

Unless we say otherwise in the applicable prospectus supplement, the provisions for full defeasance and covenant defeasance described below apply to our senior debt securities. In general, we expect these provisions to apply to each senior debt security that has a specified currency of U.S. dollars and is not a floating rate or indexed senior debt security.

#### ***Full Defeasance***

If there is a change in U.S. federal tax law, as described below, we can legally release ourselves from all payment and other obligations on any senior debt securities. For us to do so, each of the following conditions, among others, must occur:

We must deposit in trust for the benefit of all holders of those senior debt securities (i) money, (ii) U.S. government or U.S. government agency notes or bonds or (iii) a combination thereof, in each case in an amount that will generate enough cash to make interest, principal and any other payments on those senior debt securities on their various due dates;

There must be a change in current U.S. federal income tax law or an Internal Revenue Service ruling that permits us to make the above deposit without causing the holders to be taxed on those senior debt securities under the then current U.S. federal income tax law any differently than if we did not make the deposit and just repaid those senior debt securities ourselves. Under current U.S. federal income tax law, the deposit and our legal release from your senior debt security would be treated as though we took back your senior debt security and gave you your share of the cash and notes or bonds deposited in trust. In that event, you could recognize gain or loss on your senior debt security; and

We must deliver to the trustee a legal opinion of our counsel confirming the tax law change described above.

If we ever fully defeased your senior debt security, you would have to rely solely on the trust deposit for payments on your senior debt security. You would not be able to look to us for payment in the event of any shortfall.

#### ***Covenant Defeasance***

Under current U.S. federal tax law, we can make the same type of deposit described above and be released from the restriction on liens described under **Restriction on Certain Liens** above and any other restrictive covenants relating to your senior debt security that may be described in your prospectus supplement. In that event, you would lose the protection of those restrictive covenants. In order to achieve covenant defeasance for any senior debt securities, we must do both of the following:

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We must deposit in trust for the benefit of the holders of those senior debt securities (i) money, (ii) U.S. government or U.S. government agency notes or bonds or (iii) a combination thereof, in each case in an amount that will generate enough cash to make interest, principal and any other payments on those senior debt securities on their various due dates; and

We must deliver to the trustee a legal opinion of our counsel confirming that under then current U.S. federal income tax law we may make the above deposit without causing the holders to be taxed on those senior debt securities any differently than if we did not make the deposit and just repaid those senior debt securities ourselves.



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If we accomplish covenant defeasance with regard to your senior debt security, the following provisions of the applicable senior debt indenture and your senior debt security would no longer apply:

Our promise not to create liens on our External Indebtedness or our guarantee of a third party indebtedness described above under  
Restriction on Certain Liens;

Any additional covenants that your prospectus supplement may state are applicable to your senior debt security; and

The events of default resulting from a breach of covenants, described below in the fourth bullet point under  
Waiver of Default Events of Default .

Any right we have to redeem will survive covenant defeasance with regard to those senior debt securities.

If we accomplish covenant defeasance on your senior debt security, you can still look to us for repayment of your senior debt security in the event of any shortfall in the trust deposit. You should note, however, that if one of the remaining events of default occurred, such as our bankruptcy, and your senior debt security became immediately due and payable, there may be a shortfall. Depending on the event causing the default, you may not be able to obtain payment of the shortfall.

## **Default, Remedies and Waiver of Default**

You will have special rights if an event of default with respect to your series of senior debt securities occurs and is continuing, as described in this subsection.

### ***Events of Default***

Unless your prospectus supplement says otherwise, when we refer to an event of default with respect to any series of senior debt securities, we mean any of the following:

We do not pay the principal or any premium on any senior debt security of that series on the due date and the non-payment continues for a period of seven days;

We do not pay interest on any senior debt security of that series within 30 days after the due date;

We do not deposit a sinking fund payment with regard to any senior debt security of that series on the due date, but only if the payment is required under provisions described in the applicable prospectus supplement and non-deposit continues for a period of seven days;

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We default in the performance or remain in breach of any covenant we make in the senior debt indenture for the benefit of the relevant series, for 90 days after we receive a notice of default stating that we are in default or breach and requiring us to remedy the default or breach. The notice must be sent by the trustee or the holders of at least 25% in principal amount of the relevant series of senior debt securities then outstanding;

We do not repay indebtedness for borrowed money with an aggregate outstanding principal amount of at least \$10,000,000 (or its equivalent in any other currency or currencies) becoming prematurely repayable following a default, or default in the repayment of any such indebtedness at maturity or at the expiration of any applicable grace period (or in the case of such indebtedness due on demand, default in the payment of such indebtedness at the expiration of three business days after demand or, if longer, any applicable grace period), or any guarantee of or indemnity in respect of any indebtedness for borrowed money of others with a principal amount or aggregate principal amount for the time being outstanding of at least \$10,000,000 (or its equivalent in any other currency or currencies) not honored when due and called upon at the expiration of any applicable grace period; or

We file for bankruptcy or other events of voluntary or involuntary bankruptcy, insolvency or reorganization relating to us occur; or

If the applicable prospectus supplement states that any additional event of default applies to the series, that event of default occurs.

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We may change, eliminate, or add to the events of default with respect to any particular series or any particular senior debt security or senior debt securities within a series, as indicated in the applicable prospectus supplement.

### ***Remedies If an Event of Default Occurs***

Except as otherwise specified in the applicable prospectus supplement, if an event of default has occurred with respect to any series of senior debt securities and has not been cured or waived, the trustee or the holders of not less than 25% in principal amount of all senior debt securities of that series then outstanding may accelerate the stated maturity of the affected series of senior debt securities by declaring the entire principal amount of the senior debt securities of that series to be due immediately.

Except as otherwise specified in the applicable prospectus supplement, if the stated maturity of any series is accelerated and a judgment for payment has not yet been obtained, the holders of a majority in principal amount of the senior debt securities of that series may cancel the acceleration, subject to certain conditions set forth in the senior debt indenture.

The trustee is not required to take any action under the relevant senior debt indenture at the request of any holders unless the holders offer the trustee reasonable protection from expenses and liability. If the trustee is provided with an indemnity reasonably satisfactory to it, the holders of a majority in principal amount of all senior debt securities of the relevant series may direct the time, method and place of conducting any lawsuit or other formal legal action seeking any remedy available to the trustee with respect to that series. These majority holders may also direct the trustee in performing any other action under the applicable senior debt indenture with respect to the senior debt securities of that series.

Before you bypass the trustee and bring your own lawsuit or other formal legal action or take other steps to enforce your rights or protect your interests relating to any senior debt security, all of the following must occur:

The holder of our senior debt securities must give the trustee written notice that an event of default has occurred, and the event of default must not have been cured or waived;

The holders of not less than 25% in principal amount of all senior debt securities of your series must make a written request that the trustee take action because of the default, and they or other holders must offer to the trustee indemnity reasonably satisfactory to the trustee against the cost and other liabilities of taking that action;

The trustee must not have taken action for 60 days after the above steps have been taken; and

During those 60 days, the holders of a majority in principal amount of the senior debt securities of your series must not have given the trustee directions that are inconsistent with the above written request of the holders of not less than 25% in principal amount of the senior debt securities of your series.

You are entitled at any time, however, to bring a lawsuit for the payment of money due on your senior debt security on or after its stated maturity (or, if your senior debt security is redeemable, on or after its redemption date).

*Waiver of Default*

The holders of not less than a majority in principal amount of the senior debt securities of any series may waive a default for all senior debt securities of that series. If this happens, the default will be treated as if it has not occurred. No one can waive a payment default on your senior debt security, however, without the approval of the particular holder of that senior debt security.

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### ***Compliance with Senior Debt Indenture***

We will furnish to the trustee every year a written statement certifying that to our knowledge we are in compliance with the applicable senior debt indenture and the senior debt securities issued under it, or else specifying any default under the relevant senior debt indenture.

*Book-entry and other indirect owners should consult their banks or brokers for information on how to give notice or direction to or make a request of the trustee and how to declare or cancel an acceleration of the stated maturity of a series of senior debt securities. Book-entry and other indirect owners are described below under *Legal Ownership and Book-Entry Issuance* .*

### **Modification of the Senior Debt Indenture and Waiver of Covenants**

There are four types of changes we can make to our senior debt indenture and the senior debt securities or series of senior debt securities issued under a particular senior debt indenture.

#### ***Changes Requiring Holders' Approval***

First, there are changes that cannot be made without the approval of the holder of each senior debt security affected by the change under the applicable senior debt indenture. Here is a list of those types of changes:

change the stated maturity for any principal or interest payment on a senior debt security;

reduce the principal amount, the amount payable on acceleration of the stated maturity after a default, the interest rate or the redemption price for a senior debt security;

permit redemption of a senior debt security if not previously permitted;

impair any right a holder may have to require repayment of its senior debt security;

impair any right that a holder of an indexed or any other senior debt security may have to convert the senior debt security for or into securities;

change the currency of any payment on a senior debt security;

change the place of payment on a senior debt security;

impair a holder's right to sue for payment of any amount due on its senior debt security;

reduce the percentage in principal amount of the senior debt securities of any one or more affected series, taken separately or together, as applicable, and whether comprising the same or different series or less than all of the senior debt securities of a series, the approval of whose holders is needed to change the senior debt indenture or those senior debt securities;

reduce the percentage in principal amount of the senior debt securities of any one or more affected series, taken separately or together, as applicable, and whether comprising the same or different series or less than all of the senior debt securities of a series, the consent of whose holders is needed to waive our compliance with the applicable senior debt indenture or to waive defaults; and

change the provisions of the applicable senior debt indenture dealing with modification and waiver in any other respect, except to increase any required percentage referred to above or to add to the provisions that cannot be changed or waived without approval of the holder of each affected senior debt security.

***Changes Not Requiring Holders' Approval***

Changes to the senior debt indenture that are limited to clarifications and changes that would not adversely affect any senior debt securities of any series in any material respect do not require the approval of the holders of

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the affected senior debt securities. Holders' approval is similarly not necessary to make changes that affect only senior debt securities to be issued under the applicable senior debt indenture after the changes take effect.

We may also make changes or obtain waivers that do not adversely affect a particular senior debt security, even if they affect other senior debt securities. In those cases, we do not need to obtain the approval of the holder of the unaffected senior debt security; we need only obtain any required approvals from the holders of the affected senior debt securities.

### ***Changes Requiring Majority Approval***

Any other change to the senior debt indenture and the senior debt securities issued under that senior debt indenture would require the following approval:

If the change affects only particular senior debt securities within a series, it must be approved by the holders of a majority in principal amount of such particular senior debt securities.

If the change affects multiple senior debt securities of one or more series, it must be approved by the holders of a majority in principal amount of all senior debt securities affected by the change, with all such affected senior debt securities voting together as one class for this purpose (and by the holders of a majority in principal amount of any affected senior debt securities that by their terms are entitled to vote separately as described below).

In each case, the required approval must be given by written consent.

The modification of terms with respect to certain securities of a series issued under the senior debt indenture could be effectuated without obtaining the consent of the holders of a majority in principal amount of other securities of such series that are not affected by such modification.

The same majority approval would be required for us to obtain a waiver of any of our covenants in any senior debt indenture. Our covenants include the promises we make about merging and putting liens on certain of our interests, which we describe above under *Mergers and Similar Transactions* and *Restrictions on Certain Liens*. If the holders approve a waiver of a covenant, we will not have to comply with it. The holders, however, cannot approve a waiver of any provision in a particular senior debt security, or in the applicable senior debt indenture as it affects that senior debt security, that we cannot change without the approval of the holder of that senior debt security as described above in *Changes Requiring Holders' Approval*, unless that holder approves the waiver.

*Book-entry and other indirect owners should consult their banks or brokers for information on how approval may be granted or denied if we seek to change a senior debt indenture or any senior debt securities or request a waiver.*

### **Special Rules for Action by Holders**

When holders take any action under our senior debt indenture, such as giving a notice of default, declaring an acceleration, approving any change or waiver or giving the trustee an instruction, we will apply the following rules.

***Only Outstanding Senior Debt Securities Are Eligible***

Only holders of outstanding senior debt securities or the outstanding senior debt securities of the applicable series, as applicable, will be eligible to participate in any action by holders of such senior debt securities or the senior debt securities of that series. Also, we will count only outstanding senior debt securities in determining whether the various percentage requirements for taking action have been met. For these purposes, a senior debt security will not be outstanding if:

it has been cancelled or surrendered for cancellation;

we have deposited or set aside, in trust for its holder, money for its payment or redemption;



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we have fully defeased it as described above under Defeasance and Covenant Defeasance Full Defeasance ;

it has been issued as a replacement for a mutilated, destroyed, lost or stolen senior debt security; or

we or one of our affiliates, such as Nomura Securities International, Inc., is the owner.

### ***Special Class Voting Rights***

We may issue particular senior debt securities or a particular series of senior debt securities, as applicable, that are entitled, by their terms, to vote separately on matters (for example, modification or waiver of provisions in the applicable senior debt indenture) that would otherwise require a vote of all affected senior debt securities or all affected series voting together as a single class. Any such senior debt securities or series of senior debt securities would be entitled to vote together with all other affected senior debt securities or affected series voting together as one class, and would also be entitled to vote separately as a class only. In some cases, other parties may be entitled to exercise these special voting rights on behalf of the holders of the relevant senior debt securities or the relevant series. For other senior debt securities or series of senior debt securities that have these rights, the rights will be described in the applicable prospectus supplement. For senior debt securities or series of senior debt securities that do not have these special rights, voting will occur as described in the preceding section, but subject to any separate voting rights of any other senior debt securities or series of senior debt securities having special rights.

We may issue series having these or other special voting rights without obtaining the consent of or giving notice to holders of outstanding senior debt securities or series.

### ***Eligible Principal Amount of Some Senior Debt Securities***

In some situations, we may follow special rules in calculating the principal amount of senior debt securities that are to be treated as outstanding for the purposes described above. This may happen, for example, if the principal amount is payable in a non-U.S. dollar currency, increases over time or is not to be fixed until maturity.

For any senior debt security of the kind described below, we will decide how much principal amount to attribute to the senior debt security as follows:

For an original issue discount senior debt security, we will use the principal amount that would be due and payable on the date of the holders' action if the maturity of the senior debt security were accelerated to that date because of a default;

For a senior debt security whose principal amount is not known, we will use any amount that we indicate in the prospectus supplement for that senior debt security. The principal amount of a senior debt security may not be known, for example, because it is based on an index that changes from time to time and the principal amount is not to be determined until a later date; or

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For senior debt securities with a principal amount denominated in one or more non-U.S. dollar currencies or currency units, we will use the U.S. dollar equivalent, which we will determine as of the date of the holders' action in the manner provided in the prospectus supplement for that senior debt security.

### *Determining Record Dates for Action by Holders*

We will generally be entitled to set any day as a record date for the purpose of determining the holders that are entitled to take action under the senior debt indenture. In certain limited circumstances, only the trustee will be entitled to set a record date for action by holders. If we or the trustee set a record date for an approval or other action to be taken by holders, that vote or action may be taken only by persons or entities who are holders on the

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record date and must be taken during the period that we specify for this purpose, or that the trustee specifies if it sets the record date. We or the trustee, as applicable, may shorten or lengthen this period from time to time. This period, however, may not extend beyond the 180th day after the record date for the action. In addition, record dates for any global senior debt security may be set in accordance with procedures established by the depositary from time to time. Accordingly, record dates for global senior debt securities may differ from those for other senior debt securities.

## **Form, Exchange and Transfer of Senior Debt Securities**

If any senior debt securities cease to be issued in registered global form, they will be issued:

only in fully registered form;

without interest coupons; and

unless we indicate otherwise in your prospectus supplement, in denominations of \$2,000 and integral multiples of \$1,000 in excess thereof.

Holders may exchange their senior debt securities for senior debt securities of smaller denominations or combined into fewer senior debt securities of larger denominations, as long as the total principal amount is not changed. You may not exchange your senior debt securities for securities of a different series or having different terms, unless your prospectus supplement says you may.

Holders may exchange or transfer their senior debt securities at the office of the trustee. They may also replace lost, stolen, destroyed or mutilated senior debt securities at that office. We have appointed the trustee to act as our agent for registering senior debt securities in the names of holders and transferring and replacing senior debt securities. We may appoint another entity to perform these functions or perform them ourselves.

Holders will not be required to pay a service charge to transfer or exchange their senior debt securities, but they may be required to pay for any tax or other governmental charge associated with the exchange or transfer. The transfer or exchange, and any replacement, will be made only if our transfer agent is satisfied with the holder's proof of legal ownership. The transfer agent may require an indemnity before replacing any senior debt securities.

If we have designated additional transfer agents for your senior debt security, they will be named in your prospectus supplement. We may appoint additional transfer agents or cancel the appointment of any particular transfer agent. We may also approve a change in the office through which any transfer agent acts.

If the senior debt securities of any series are redeemable and we redeem less than all of those senior debt securities, we may block the transfer or exchange of those senior debt securities during the period beginning 15 calendar days before the day we mail the notice of redemption and ending on the day of that mailing, in order to freeze the list of holders to prepare the mailing. We may also refuse to register transfers of or

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exchange any senior debt security selected for redemption, except that we will continue to permit transfers and exchanges of the unredeemed portion of any senior debt security being partially redeemed.

If a senior debt security is issued as a global senior debt security, only the depository, DTC, Euroclear or Clearstream, as applicable, will be entitled to transfer and exchange the senior debt security as described in this subsection, since the depository will be the sole holder of the senior debt security.

The rules for exchange described above apply to exchange of senior debt securities for other senior debt securities of the same series and kind. If a senior debt security is convertible, exercisable or exchangeable into or for a different kind of security, such as one that we have not issued, or for other property, the rules governing that type of conversion, exercise or exchange will be described in the applicable prospectus supplement.

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### **Payment Mechanics for Senior Debt Securities**

#### ***Payment and Record Dates for Interest***

The dates on which interest will be payable and the regular record date relating to an interest payment date for any fixed rate debt security, floating rate debt security or indexed debt security will be specified in your prospectus supplement. The record dates will apply regardless of whether a particular record date is a business day, as defined below. For the purpose of determining the holder at the close of business on a regular record date when business is not being conducted, the close of business will mean 5:00 P.M., New York City time, on that day. Unless we specify otherwise in this prospectus or in the applicable prospectus supplement, the term days refers to calendar days.

#### ***Receipt of Payment***

If interest is due on a senior debt security on an interest payment date, we will pay the interest to the person in whose name the senior debt security is registered at the close of business on the regular record date relating to the interest payment date as described in the applicable prospectus supplement. If interest is due at maturity but on a day that is not an interest payment date, we will pay the interest to the person entitled to receive the principal of the senior debt security. If principal or another amount besides interest is due on a senior debt security at maturity, we will pay the amount to the holder of the senior debt security against surrender of the senior debt security at a proper place of payment or, in the case of a global senior debt security, in accordance with the applicable policies of the depositary, DTC, Euroclear or Clearstream, as applicable.

#### ***Business Days***

One or more of the following business day definitions shall apply to any senior debt security:

***Euro business day*** means each Monday, Tuesday, Wednesday, Thursday and Friday on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System, or any successor system, is open for business.

***London business day*** means each Monday, Tuesday, Wednesday, Thursday and Friday that is not a day on which banking institutions in London generally are authorized or obligated by law, regulation or executive order to close and, in the case of a senior debt security for which LIBOR is an interest rate basis, is also a day on which dealings in the applicable index currency are transacted in the London interbank market.

***New York business day*** means each Monday, Tuesday, Wednesday, Thursday and Friday that is not a day on which banking institutions in New York City generally are authorized or obligated by law, regulation or executive order to close.

Additional business days not defined above may apply to any senior debt security and will be described in the applicable prospectus supplement.

***Business Day Conventions***

As specified in the applicable prospectus supplement, one of the following business day conventions may apply to any senior debt security with regard to any relevant date other than one that falls on the maturity:

***Following business day convention*** means, for any interest payment date, other than the maturity, if such date would otherwise fall on a day that is not a business day, then such date will be postponed to the next day that is a business day.

***Modified following business day convention*** means, for any interest payment date, other than the maturity, if such date would otherwise fall on a day that is not a business day, then such date will be postponed to

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the next day that is a business day, except that, if the next business day falls in the next calendar month, then such date will be advanced to the immediately preceding day that is a business day.

***Following unadjusted business day convention*** means, for any interest payment date, other than the maturity, that falls on a day that is not a business day, any payment due on such interest payment date will be postponed to the next day that is a business day; *provided* that interest due with respect to such interest payment date shall not accrue from and including such interest payment date to and including the date of payment of such interest as so postponed.

***Modified following unadjusted business day convention*** means, for any interest payment date, other than the maturity, that falls on a day that is not a business day, any payment due on such interest payment date will be postponed to the next day that is a business day; *provided* that interest due with respect to such interest payment date shall not accrue from and including such interest payment date to and including the date of payment of such interest as so postponed, and *provided further* that, if such day would fall in the next calendar month, the date of payment with respect to such interest payment date will be advanced to the business day immediately preceding such interest payment date.

In all cases, if the stated maturity or any earlier redemption date or repayment date with respect to a senior debt security falls on a day that is not a business day, any payment of principal, premium, if any, and interest otherwise due on such day will be made on the next succeeding business day, and no interest on such payment shall accrue for the period from and after such stated maturity, redemption date or repayment date, as the case may be.

### ***Payments Due in U.S. Dollars***

We will follow the practice described in this subsection when paying amounts due in U.S. dollars. Payments of amounts due in other currencies will be made as described in the next subsection.

***Payments on Global Senior Debt Securities.*** We will make payments on a global senior debt security in accordance with the applicable policies of the depositary, which will be DTC, Euroclear or Clearstream, as applicable, as in effect from time to time. Under those policies, we will pay directly to the depositary, or its nominee, and not to any indirect owners who own beneficial interests in the global senior debt security. An indirect owner's right to receive those payments will be governed by the rules and practices of the depositary and its participants, as described below in the section entitled "Legal Ownership and Book-Entry Issuance - Global Security".

***Payments on Non-Global Senior Debt Securities.*** We will make payments on a senior debt security in non-global, registered form as follows. We will pay interest that is due on an interest payment date by check mailed on the interest payment date to the holder at his or her address shown on the trustee's records as of the close of business on the regular record date. We will make all other payments by check or via wire transfer at the paying agent described below, against surrender of the senior debt security. All payments by check will be made in next-day funds *i.e.*, funds that become available on the day after the check is cashed or wire transfer is completed.

Alternatively, if a non-global senior debt security has a principal amount of at least \$1,000,000 (and the equivalent in another currency) and the holder asks us to do so, we will pay any amount that becomes due on the senior debt security by wire transfer of immediately available funds to an account at a bank in New York City, on the due date. To request wire payment, the holder must give the paying agent appropriate wire transfer instructions at least five business days before the requested wire payment is due. In the case of any interest payment due on an interest

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payment date, the instructions must be given by the person or entity who is the holder on the relevant regular record date. In the case of any other payment, payment will be made only after the senior debt security is surrendered to the paying agent. Any wire instructions, once properly given, will remain in effect unless and until new instructions are given in the manner described above.



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*Book-entry and other indirect owners should consult their banks or brokers for information on how they will receive payments on their senior debt securities.*

### ***Payments Due in non-U.S. Currencies***

We will follow the practice described in this subsection when paying amounts that are due in a specified currency other than U.S. dollars.

***Payments on Global Senior Debt Securities.*** We will make payments on a global senior debt security in the applicable specified currency in accordance with the applicable policies as in effect from time to time of the depository, which will be DTC, Euroclear or Clearstream, as applicable. Unless we specify otherwise in the applicable prospectus supplement, DTC will be the depository for all senior debt securities in global form.

*Indirect owners of a global senior debt security denominated in a currency other than U.S. dollars should consult their banks or brokers for information on how to request payment in the specified currency in cases where holders have a right to do so.*

***Payments on Non-Global Senior Debt Securities.*** Except as described in the last paragraph under this heading, we will make payments on a senior debt security in non-global form in the applicable specified currency. We will make these payments by wire transfer of immediately available funds to any account that is maintained in the applicable specified currency at a bank designated by the holder and is acceptable to us and the trustee. To designate an account for wire payment, the holder must give the paying agent appropriate wire instructions at least five business days before the requested wire payment is due. In the case of any interest payment due on an interest payment date, the instructions must be given by the person or entity who is the holder on the regular record date. In the case of any other payment, the payment will be made only after the senior debt security is surrendered to the paying agent. Any instructions, once properly given, will remain in effect unless and until new instructions are properly given in the manner described above.

If a holder fails to give instructions as described above, we will notify the holder at the address in the trustee's records and will make the payment within five business days after the holder provides appropriate instructions. Any late payment made in these circumstances will be treated under the applicable senior debt indenture as if made on the due date, and no interest will accrue on the late payment from the due date to the date paid.

Although a payment on a senior debt security in non-global form may be due in a specified currency other than U.S. dollars, we will make the payment in U.S. dollars if your prospectus supplement specifies that holders may ask us to do so and you make such a request. To request U.S. dollar payment in these circumstances, the holder must provide appropriate written notice to the trustee at least five business days before the next due date for which payment in U.S. dollars is requested. In the case of any interest payment due on an interest payment date, the request must be made by the person or entity who is the holder on the regular record date. Any request, once properly made, will remain in effect unless and until revoked by notice properly given in the manner described above.

*Book-entry and other indirect owners of a senior debt security with a specified currency other than U.S. dollars should contact their banks or brokers for information about how to receive payments in the specified currency or in U.S. dollars.*

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**Conversion to U.S. dollars.** Unless otherwise indicated in your prospectus supplement, holders are not entitled to receive payments in U.S. dollars of an amount due in another currency, either on a global senior debt security or a non-global senior debt security.

If your prospectus supplement specifies that holders may request that we make payments in U.S. dollars of an amount due in another currency, the exchange rate agent described below will calculate the U.S. dollar

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amount the holder receives in the exchange rate agent's discretion. A holder that requests payment in U.S. dollars will bear all associated currency exchange costs, which will be deducted from the payment.

***When the Specified Currency Is Not Available.*** If we are obligated to make any payment in a specified currency other than U.S. dollars, and the specified currency or any successor currency is not available to us due to circumstances beyond our control—such as the imposition of exchange controls or a disruption in the currency markets—we will be entitled to satisfy our obligation to make the payment in that specified currency by making the payment in U.S. dollars, on the basis of the exchange rate determined by the exchange rate agent described below, in its discretion.

The foregoing will apply to any senior debt security, whether in global or non-global form, and to any payment, including a payment at maturity. Any payment made under the circumstances and in a manner described above will not result in a default under any senior debt security or the applicable senior debt indenture.

***Exchange Rate Agent.*** If we issue a senior debt security in a specified currency other than dollars, we will appoint a financial institution to act as the exchange rate agent and will name the institution initially appointed when the senior debt security is originally issued in the applicable prospectus supplement. We may select one of our affiliates to perform this role. We may change the exchange rate agent from time to time after the original issue date of the senior debt security without your consent and without notifying you of the change.

All determinations made by the exchange rate agent will be in its sole discretion unless we state in the applicable prospectus supplement that any determination requires our approval. In the absence of manifest error, those determinations will be conclusive for all purposes and binding on you and us, without any liability on the part of the exchange rate agent.

### ***Payment When Offices Are Closed***

Unless specified otherwise in the applicable prospectus supplement, if any payment is due on a senior debt security on a day that is not a business day, we will make the payment on the next business day. Payments postponed to the next business day in this situation will be treated under the applicable senior debt indenture as if they were made on the original due date. Postponement of this kind will not result in a default under any senior debt security or the applicable senior debt indenture, and, unless otherwise specified on the applicable prospectus supplement, no interest will accrue on the postponed amount from the original due date to the next business day.

### ***Paying Agent***

We may appoint one or more financial institutions to act as our paying agents, at whose designated offices senior debt securities in non-global entry form may be surrendered for payment at their maturity. We call each of those offices a paying agent. We may add, replace or terminate paying agents from time to time. We may also choose to act as our own paying agent. Initially, we have appointed the trustee, at its corporate trust office in New York City, as the paying agent. We must notify the trustee of changes in the paying agents.

### ***Unclaimed Payments***

Regardless of who acts as paying agent, all money paid by us to a paying agent that remains unclaimed at the end of two years after the amount is due to a holder will be repaid to us. After that two-year period, the holder may look only to us for payment and not to the trustee, any other paying agent or anyone else.

**Notices**

Notices to be given to holders of a global senior debt security will be given only to the depositary, in accordance with its applicable policies as in effect from time to time. Notices to be given to holders of senior debt securities not in global form will be sent by mail to the respective addresses of the holders as they appear in

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the trustee's records, and will be deemed given when mailed. Neither the failure to give any notice to a particular holder, nor any defect in a notice given to a particular holder, will affect the sufficiency of any notice given to another holder.

*Book-entry and other indirect owners should consult their banks or brokers for information on how they will receive notices.*

## **Concerning the Trustee**

Deutsche Bank Trust Company Americas is initially serving as the trustee for the senior debt securities. Under the senior debt indenture, we are required to file with the trustee any information, documents and other reports, or summaries thereof, as may be required under the Trust Indenture Act, at the times and in the manner provided under the Trust Indenture Act. However, in case of documents filed with the SEC pursuant to Section 13 or 15(d) of the Exchange Act, any such filing with the trustee need not be made until the 15th day after such filing is actually made with the SEC.

## **Indemnification of Trustee for Actions Taken on Your Behalf**

The senior debt indenture provides that we will indemnify the trustee for, and hold it harmless against, any loss, claim, liability or expense incurred without negligence or bad faith on its part, arising out of or in connection with the acceptance or administration of the trust or trusts under the senior debt indenture, including the reasonable costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers or duties under the senior debt indenture. Subject to these provisions and specified other limitations, the holders of a majority in aggregate principal amount of each series of outstanding senior debt securities of each affected series, voting as one class, may direct the time, method and place of conducting any proceeding for any remedy available to the trustee, or exercising any trust or power conferred on the trustee.

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**LEGAL OWNERSHIP AND BOOK-ENTRY ISSUANCE**

The following section describes the special considerations that will apply to registered securities issued in global, or book-entry, form.

**Legal Owner of a Registered Security**

Each senior debt security in registered form will be represented either by a certificate issued in definitive form to a particular investor or by one or more global securities representing the entire issuance of securities. We refer to those who have securities registered in their own names, on the books that we or the trustee or other agent maintain for this purpose, as the holders of those securities. These persons are the legal holders of the securities. We refer to those who, indirectly through others, own beneficial interests in securities that are not registered in their own names as indirect owners of those securities. As we discuss below, indirect owners are not legal holders, and investors in securities issued in book-entry form or in street name will be indirect owners.

***Book-Entry Owners***

We intend to initially issue each security in book-entry form only. This means securities will be represented by one or more global securities registered in the name of a financial institution that holds them as depository on behalf of other financial institutions that participate in the depository's book-entry system. These participating institutions, in turn, hold beneficial interests in the securities on behalf of themselves or their customers.

Under the senior debt indenture, only the person in whose name a security is registered is recognized as the holder of that security. Consequently, for securities issued in global form, we will recognize only the depository as the holder of the securities and we will make all payments on the securities, including deliveries of any property other than cash, to the depository. The depository passes along the payments it receives to its participants, which in turn pass the payments along to their customers who are the beneficial owners. The depository and its participants do so under agreements they have made with one another or with their customers; they are not obligated to do so under the terms of the securities.

As a result, investors will not own securities directly. Instead, they will own beneficial interests in a global security, through a bank, broker or other financial institution that participates in the depository's book-entry system or holds an interest through a participant. As long as the securities are issued in global form, investors will be indirect owners, and not holders, of the securities.

***Street Name Owners***

In the future we may terminate a global security or issue securities in non-global form. In these cases, investors may choose to hold their securities in their own names or in street name. Securities held by an investor in street name would be registered in the name of a bank, broker or other financial institution that the investor chooses, and the investor would hold only a beneficial interest in those securities through an account he or she maintains at that institution.

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For securities held in street name, we will recognize only the intermediary banks, brokers and other financial institutions in whose names the securities are registered as the holders of those securities and we will make all payments on those securities, including deliveries of any property other than cash, to them. These institutions pass along the payments they receive to their customers who are the beneficial owners, but only because they agree to do so in their customer agreements or because they are legally required to do so. Investors who hold securities in street name will be indirect owners, not holders, of those securities.

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### ***Legal Holders***

Our obligations and the obligations of the trustee under the senior debt indenture and the obligations, if any, of any other third parties employed by us, the trustee or any of those agents, run only to the holders of the securities. We do not have obligations to investors who hold beneficial interests in global securities, in street name or by any other indirect means. This will be the case whether an investor chooses to be an indirect owner of a security or has no choice because we are issuing the securities only in global form.

For example, once we make a payment or give a notice to the holder, we have no further responsibility for that payment or notice even if that holder is required, under agreements with depositary participants or customers or by law, to pass it along to the indirect owners but does not do so. Similarly, if we want to obtain the approval of the holders for any purpose *e.g.*, to amend the senior debt indenture for a series of senior debt securities or to relieve us of the consequences of a default or of our obligation to comply with a particular provision of an indenture we would seek the approval only from the holders, and not the indirect owners, of the relevant securities. Whether and how the holders contact the indirect owners is up to the holders.

### ***Special Considerations for Indirect Owners***

If you hold securities through a bank, broker or other financial institution, either in book-entry form or in street name, you should check with your own institution to find out:

how it handles securities payments and notices;

whether it imposes fees or charges;

how it would handle a request for the holders' consent, if ever required;

whether and how you can instruct it to send you securities registered in your own name so you can be a holder, if that is permitted in the future;

how it would exercise rights under the securities if there were a default or other event triggering the need for holders to act to protect their interests; and

if the securities are in book-entry form, how the depositary's rules and procedures will affect these matters.

### **Global Security**

We intend to initially issue each security in book-entry form only. Each security issued in book-entry form will be represented by one or more global securities that we deposit with and register in the name of one or more financial institutions or clearing systems, or their nominees, which



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we select. A financial institution or clearing system that we select for any security for this purpose is called the depositary for that security. A security will usually have only one depositary but it may have more.

Each series of securities will have one or more of the following as the depositaries:

DTC;

a financial institution holding the securities on behalf of Euroclear;

a financial institution holding the securities on behalf of Clearstream; and

any other clearing system or financial institution named in the applicable prospectus supplement.

The depositaries named above may also be participants in one another's clearing systems. Thus, for example, if DTC is the depositary for a global security, investors may hold beneficial interests in that security through Euroclear or Clearstream, as DTC participants. The depositary or depositaries for your securities will be named in your prospectus supplement; if none is named, the depositary will be DTC.

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A global security may represent one or any other number of individual securities. Generally, all securities represented by the same global security will have the same terms. We may, however, issue a global security that represents multiple securities of the same kind, such as senior debt securities, that have different terms and are issued at different times. We call this kind of global security a master global security. Your prospectus supplement will not indicate whether your securities are represented by a master global security.

A global security may not be transferred to or registered in the name of anyone other than the depositary or its nominee, unless special termination situations arise. We describe those situations below under **Holder's Option to Obtain a Non-Global Security; Special Situations When a Global Security Will Be Terminated**. As a result of these arrangements, the depositary, or its nominee, will be the sole registered owner and holder of all securities represented by a global security, and investors will be permitted to own only indirect interests in a global security. Indirect interests must be held by means of an account with a broker, bank or other financial institution that in turn has an account with the depositary or with another institution that does. Thus, an investor whose security is represented by a global security will not be a holder of the security, but only an indirect owner of an interest in the global security.

If the prospectus supplement for a particular security indicates that the security will be issued in global form only, then the security will be represented by one or more global securities at all times unless and until the global securities are terminated. We describe the situations in which this can occur below under **Holder's Option to Obtain a Non-Global Security; Special Situations When a Global Security Will Be Terminated**. If termination occurs, we may issue the securities through another book-entry clearing system or decide that the securities may no longer be held through any book-entry clearing system.

### ***Special Considerations for Global Securities***

As an indirect owner, an investor's rights relating to a global security will be governed by the account rules of the depositary and those of the investor's financial institution or other intermediary through which it holds its interest (e.g., Euroclear or Clearstream, if DTC is the depositary), as well as general laws relating to securities transfers. We do not recognize this type of investor or any intermediary as a holder of securities and instead deal only with the depositary that holds the global security.

If securities are issued only in the form of a global security, an investor should be aware of the following:

An investor cannot cause the securities to be registered in his or her own name, and cannot obtain non-global certificates for his or her interest in the securities, except in the special situations we describe below;

An investor will be an indirect holder and must look to his or her own bank or broker for payments on the securities and protection of his or her legal rights relating to the securities, as we describe above under **Legal Owner of a Registered Security**;

An investor may not be able to sell interests in the securities to some insurance companies and other institutions that are required by law to own their securities in non-book-entry form;

An investor may not be able to pledge his or her interest in a global security in circumstances where certificates representing the securities must be delivered to the lender or other beneficiary of the pledge in order for the pledge to be effective;

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The depositary's policies will govern payments, deliveries, transfers, exchanges, notices and other matters relating to an investor's interest in a global security, and those policies may change from time to time. We, and the trustee will have no responsibility for any aspect of the depositary's policies, actions or records of ownership interests in a global security. We and the trustee also do not supervise the depositary in any way;

The depositary will require that those who purchase and sell interests in a global security within its book-entry system use immediately available funds and your broker or bank may require you to do so as well; and

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Financial institutions that participate in the depositary's book-entry system and through which an investor holds its interest in the global securities, directly or indirectly, may also have their own policies affecting payments, deliveries, transfers, exchanges, notices and other matters relating to the securities, and those policies may change from time to time. For example, if you hold an interest in a global security through Euroclear or Clearstream, when DTC is the depositary, Euroclear or Clearstream, as applicable, will require those who purchase and sell interests in that security through them to use immediately available funds and comply with other policies and procedures, including deadlines for giving instructions as to transactions that are to be effected on a particular day. There may be more than one financial intermediary in the chain of ownership for an investor. We do not monitor and are not responsible for the policies or actions or records of ownership interests of any of those intermediaries.

### ***Holder's Option to Obtain a Non-Global Security; Special Situations When a Global Security Will Be Terminated***

If we issue any series of securities in book-entry form but we choose to give the beneficial owners of that series the right to obtain non-global securities, any beneficial owner entitled to obtain non-global securities may do so by following the applicable procedures of the depositary, any transfer agent or registrar for that series and that owner's bank, broker or other financial institution through which that owner holds its beneficial interest in the securities. For example, in the case of a global security representing preferred stock or depositary shares, a beneficial owner will be entitled to obtain a non-global security representing its interest by making a written request to the transfer agent or other agent designated by us. If you are entitled to request a non-global certificate and wish to do so, you will need to allow sufficient lead time to enable us or our agent to prepare the requested certificate.

In addition, in a few special situations described below, a global security will be terminated and interests in it will be exchanged for certificates in non-global form representing the securities it represented. After that exchange, the choice of whether to hold the securities directly or in street name will be up to the investor. Investors must consult their own banks or brokers to find out how to have their interests in a global security transferred on termination to their own names, so that they will be holders. We have described the rights of holders and street name investors above under **Legal Owner of a Registered Security**.

The special situations for termination of a global security are as follows:

if the depositary notifies us that it is unwilling, unable or no longer qualified to continue as depositary for that global security and we do not appoint another institution to act as depositary within 60 days;

if we notify the trustee that we wish to terminate that global security; or

in the case of a global security representing senior debt securities issued under a senior debt indenture, if an event of default has occurred with regard to these senior debt securities or warrants and has not been cured or waived.

If a global security is terminated, only the depositary, and not we or the trustee, is responsible for deciding the names of the institutions in whose names the securities represented by the global security will be registered and, therefore, who will be the holders of those securities.

### ***Considerations Relating to Euroclear and Clearstream***

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Euroclear and Clearstream are securities clearing systems in Europe. Both systems clear and settle securities transactions between their participants through electronic, book-entry delivery of securities against payment.

Euroclear and Clearstream may be depositaries for a global security. In addition, if DTC is the depositary for a global security, Euroclear and Clearstream may hold interests in the global security as participants in DTC.

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As long as any global security is held by Euroclear or Clearstream, as depositary, you may hold an interest in the global security only through an organization that participates, directly or indirectly, in Euroclear or Clearstream. If Euroclear or Clearstream is the depositary for a global security and there is no depositary in the United States, you will not be able to hold interests in that global security through any securities clearance system in the United States.

Payments, deliveries, transfers, exchanges, notices and other matters relating to the securities made through Euroclear or Clearstream must comply with the rules and procedures of those systems. Those clearing systems could change their rules and procedures at any time. We do not have control over those systems or their participants, and we do not take responsibility for their activities. Transactions between participants in Euroclear or Clearstream, on one hand, and participants in DTC, on the other hand, when DTC is the depositary, would also be subject to DTC's rules and procedures.

### ***Special Timing Considerations for Transactions in Euroclear and Clearstream***

Investors will be able to make and receive through Euroclear and Clearstream payments, deliveries, transfers, exchanges, notices and other transactions involving any securities held through those clearing systems only on days when those systems are open for business. These clearing systems may not be open for business on days when banks, brokers and other institutions are open for business in the United States.

In addition, because of time-zone differences, U.S. investors who hold their interests in the securities through these clearing systems and wish to transfer their interests, or to receive or make a payment or delivery or exercise any other right with respect to their interests, on a particular day may find that the transaction will not be effected until the next business day in Luxembourg or Brussels, as applicable. Thus, investors who wish to exercise rights that expire on a particular day may need to act before the expiration date. In addition, investors who hold their interests through both DTC and Euroclear or Clearstream may need to make special arrangements to finance any purchases or sales of their interests between the U.S. and European clearing systems, and those transactions may settle later than would be the case for transactions within one clearing system.

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**TAXATION**

*The prospectus supplement may contain a summary of the material U.S. federal income tax consequences, if any, to persons investing in the senior debt securities offered by that prospectus supplement. In addition, if the tax laws of any foreign country are material to a particular series of senior debt securities, a prospectus supplement may describe the principal income tax consequences under such laws of the acquisition, ownership and disposition of such series of senior debt securities. The summary of tax consequences contained in the applicable prospectus supplement will be presented for informational purposes only, however, and will not be intended as legal or tax advice to prospective purchasers. You should consult your own tax advisor prior to any acquisition of senior debt securities.*

**Japanese Taxation**

The following description is a summary of Japanese tax consequences (limited to national taxes) to holders of the debt securities, principally relating to such holders that are individual non-residents of Japan or non-Japanese corporations, having no permanent establishment in Japan, and applicable to interest and issue differential (as defined below) with respect to debt securities that will be issued by Nomura outside Japan on or after April 1, 2010 and interest on which will be payable outside Japan, as well as to certain aspects of capital gains, inheritance and gift taxes.

The statements regarding Japanese tax laws set out below are based on the laws in force and as interpreted by the Japanese taxation authorities as at the date hereof and are subject to changes in the applicable Japanese laws or tax treaties, conventions or agreements or in the interpretation thereof after that date. Prospective investors should note that the following description of Japanese taxation is not exhaustive.

***Interest and issue differential***

Interest payments on the debt securities will be subject to Japanese withholding tax unless the holder establishes that the debt security is held by or for the account of a holder that is (i) for Japanese tax purposes, neither (x) an individual resident of Japan or a Japanese corporation, nor (y) an individual non-resident of Japan or a non-Japanese corporation that in either case is a person having a special relationship with us as described in Article 6, paragraph 4 of the Special Taxation Measures Act (a specially-related person of ours), or (ii) a Japanese designated financial institution as described in Article 6, paragraph 9 of the Special Taxation Measures Act which complies with the requirement for tax exemption under that paragraph.

Interest payments on the debt securities to an individual resident of Japan, to a Japanese corporation not described in item (ii) of the preceding paragraph, or to an individual non-resident of Japan or a non-Japanese corporation that in either case is a specially-related person of ours will be subject to deduction in respect of Japanese income tax at a rate of 15 per cent. of the amount specified in subparagraphs (a) or (b) below, as applicable:

- (a) if interest is paid to an individual resident of Japan, to a Japanese corporation, or to an individual non-resident of Japan or a non-Japanese corporation that in either case is a specially-related person of ours (except as provided in subparagraph (b) below), the amount of such interest; or

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- (b) if interest is paid to a public corporation, a financial institution, a financial instruments business operator or certain other entities through a Japanese payment handling agent, as provided in Article 3-3, paragraph 6 of the Special Taxation Measures Act in compliance with the requirement for tax exemption under that paragraph, the amount of such interest minus the amount provided in the Cabinet Order relating to the said paragraph 6.

A legend containing a statement to the same effect as set forth in the preceding paragraphs will be printed on the relevant debt securities or global debt security, as applicable, in compliance with the requirements of the Special Taxation Measures Act and regulations thereunder.



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If the recipient of interest on the debt securities is a holder that is an individual non-resident of Japan or a non-Japanese corporation, having no permanent establishment in Japan, that in either case is not a specially-related person of ours, no Japanese income tax or corporation tax will be payable with respect to such interest whether by way of withholding or otherwise, if such recipient complies with certain requirements, *inter alia*:

- (a) if the relevant debt securities are held through a participant in an international clearing organization, such as DTC, Euroclear and Clearstream, Luxembourg, or through a financial intermediary, in each case, as prescribed by the Special Taxation Measures Act (each such participant or financial intermediary being referred to as a Participant ), the requirement to provide certain information prescribed by the Special Taxation Measures Act to enable the Participant to establish that the recipient is exempt from the requirement for Japanese tax to be withheld or deducted; and
- (b) if the relevant debt securities are held not through a Participant, the requirement to submit to the relevant paying agent that makes payment of interest on the debt securities a claim for exemption from withholding tax (*Hikazai Tekiyo Shinkokusho*), together with certain documentary evidence, at or prior to each time of receiving interest.

The above-described exemption from Japanese income tax or corporation tax with respect to interest on the debt securities will not be applicable to any debt securities on which interest is calculated based on any of certain indices, including the amount of profits or assets of ours or a specially-related person of ours, as described in Article 6, paragraph 4 of the Special Taxation Measures Act and the Cabinet Order relating to the said paragraph 4 ( Taxable Linked Securities ).

If a recipient of interest on the debt securities is an individual non-resident of Japan or a non-Japanese corporation, having no permanent establishment in Japan, which is subject to Japanese withholding tax due to its status as a specially-related person of ours or for any other reason, (i) the rate of withholding tax may be reduced, generally to 10 %, under applicable tax treaty, convention or agreement, and (ii) if such recipient is not subject to Japanese tax under applicable tax treaty, convention or agreement due to its status as a registered securities dealer in the relevant country, such as the United States and the United Kingdom, or for any other reason, no Japanese income tax or corporation tax will be payable with respect to such interest whether by way of withholding or otherwise; provided that, in either case (i) or (ii) above, such recipient shall submit required documents and information (if any) to the relevant tax authority.

If the recipient of any difference between the issue price and the redemption price of the debt securities (the issue differential ), is a holder that is an individual non-resident of Japan or a non-Japanese corporation, having no permanent establishment in Japan, that in either case is not a specially-related person of ours, no income tax or corporation tax will be payable with respect to such issue differential.

### ***Capital Gains, Inheritance and Gift Taxes***

Gains derived from the sale of the debt securities, whether within or outside Japan, by a holder that is an individual non-resident of Japan or a non-Japanese corporation, having no permanent establishment in Japan, will be, in general, not subject to Japanese income or corporation tax.

Japanese inheritance and gift taxes at progressive rates may be payable by an individual who has acquired the debt securities as a legatee, heir or donee, even if the individual is not a Japanese resident.

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No stamp, issue, registration or similar taxes or duties will, under present Japanese law, be payable by holders of the debt securities in connection with the issue of the debt securities outside Japan.

### **United States Taxation**

This section describes the material United States federal income tax consequences of acquiring, owning and disposing of certain of the debt securities we may offer. The material United States federal income tax consequences of acquiring, owning and disposing of securities that contain any material term not described in

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this prospectus will be described in the applicable prospectus supplement. This section is the opinion of Sullivan & Cromwell LLP, United States tax counsel to Nomura. It applies to you only if you acquire debt securities in an offering governed by this prospectus and you hold your debt securities as capital assets for tax purposes. This section does not apply to you if you are a member of a class of holders subject to special rules, such as:

a dealer in securities or currencies,

a trader in securities that elects to use a mark-to-market method of accounting for your securities holdings,

a bank,

a life insurance company,

a tax-exempt organization,

a person liable for the alternative minimum tax,

a person that owns debt securities that are a hedge or that are hedged against interest rate or currency risks,

a person that owns debt securities as part of a straddle or conversion transaction for tax purposes, or

a United States holder (as defined below) whose functional currency for tax purposes is not the U.S. dollar.

This section deals only with debt securities that are due to mature 30 years or less from the date on which they are issued. The United States federal income tax consequences of acquiring, owning and disposing of debt securities that are due to mature more than 30 years from their date of issue will be discussed in the applicable prospectus supplement.

This section is based on the United States Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations under the Internal Revenue Code, published rulings and court decisions, as well as the Convention between the Government of the United States of America and the Government of Japan for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income, all as currently in effect. These laws are subject to change, possibly on a retroactive basis.

If a partnership holds the debt securities, the United States federal income tax treatment of a partner will generally depend on the status of the partner and the tax treatment of the partnership. A partner in a partnership holding the debt securities should consult its tax advisor with regard to the United States federal income tax treatment of an investment in the debt securities.

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*You should consult your own tax advisor regarding the United States federal, state and local and other tax consequences of acquiring, owning and disposing of debt securities in your particular circumstances.*

### ***United States Holders***

This subsection describes the tax consequences to a United States holder of acquiring, owning and disposing of debt securities that we may issue. You are a United States holder if you are a beneficial owner of a debt security and you are:

a citizen or individual resident of the United States,

a domestic corporation,

an estate whose income is subject to United States federal income tax regardless of its source, or

a trust if a United States court can exercise primary supervision over the trust's administration and one or more United States persons are authorized to control all substantial decisions of the trust.

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If you are not a United States holder, please see [Non-United States Holders](#) below.

### *Payments of Interest*

Except as described below in the case of interest on an original issue discount debt security that is not qualified stated interest, each as defined below under [United States Holders Original Issue Discount General](#), you will be taxed on any interest on your debt security, whether payable in U.S. dollars or a non-U.S. dollar currency, including a composite currency or basket of currencies other than U.S. dollars, as ordinary income at the time you receive the interest or when it accrues, depending on your method of accounting for tax purposes.

You must include any tax withheld from the interest payment as ordinary income even though you do not in fact receive the amount withheld. You will also be required to include in income as interest any additional amounts paid with respect to withholding tax on the debt securities, including tax withheld from the payment of such additional amounts. You may be entitled to deduct or credit the withholding tax, subject to applicable limits. Interest paid by us on your debt security and the original issue discount, if any, accrued with respect to your debt security (as described below under [United States Holders Original Issue Discount](#)) is income from sources outside the United States, and will, depending on your circumstances, be [passive category income](#) or [general category income](#) for purposes of computing the foreign tax credit allowable to a United States holder. The rules governing foreign tax credits are complex and you should consult your tax advisor regarding the availability of the foreign tax credit in your situation.

*Cash Basis Taxpayers.* If you are a taxpayer that uses the cash receipts and disbursements method of accounting for tax purposes and you receive an interest payment that is denominated in, or determined by reference to, a non-U.S. dollar currency, you must recognize income equal to the U.S. dollar value of the interest payment, based on the exchange rate in effect on the date of receipt, regardless of whether you actually convert the payment into U.S. dollars.

*Accrual Basis Taxpayers.* If you are a taxpayer that uses an accrual method of accounting for tax purposes, you may determine the amount of income that you recognize with respect to an interest payment denominated in, or determined by reference to, a non-U.S. dollar currency by using one of two methods. Under the first method, you will determine the amount of income accrued based on the average exchange rate in effect during the interest accrual period or, with respect to an accrual period that spans two taxable years, that part of the period within the taxable year.

If you elect the second method, you would determine the amount of income accrued on the basis of the exchange rate in effect on the last day of the accrual period, or, in the case of an accrual period that spans two taxable years, the exchange rate in effect on the last day of the part of the period within the taxable year. Additionally, under this second method, if you receive a payment of interest within five business days of the last day of your accrual period or taxable year, you may instead translate the interest accrued into U.S. dollars at the exchange rate in effect on the day that you actually receive the interest payment. If you elect the second method, it will apply to all debt instruments that you hold at the beginning of the first taxable year to which the election applies and to all debt instruments that you subsequently acquire. You may not revoke this election without the consent of the United States Internal Revenue Service.

When you actually receive an interest payment, including a payment attributable to accrued but unpaid interest upon the sale or retirement of your debt security, denominated in, or determined by reference to, a non-U.S. dollar currency for which you accrued an amount of income, you will recognize ordinary income or loss measured by the difference, if any, between the exchange rate that you used to accrue interest income and the exchange rate in effect on the date of receipt, regardless of whether you actually convert the payment into U.S. dollars.



**Table of Contents***Original Issue Discount*

*General.* If you own a debt security, other than a short-term debt security with a term of one year or less, it will be treated as an original issue discount debt security if the amount by which the debt security's stated redemption price at maturity exceeds its issue price is equal to or more than a *de minimis* amount. Generally, a debt security's issue price will be the first price at which a substantial amount of debt securities included in the issue of which the debt security is a part is sold to persons other than bond houses, brokers or similar persons, or organizations acting in the capacity of underwriters, placement agents or wholesalers. A debt security's stated redemption price at maturity is the total of all payments provided by the debt security that are not payments of qualified stated interest. Generally, an interest payment on a debt security is qualified stated interest if it is one of a series of stated interest payments on a debt security that are unconditionally payable at least annually at a single fixed rate, with certain exceptions for lower rates paid during some periods, applied to the outstanding principal amount of the debt security. There are special rules for variable rate debt securities that are discussed below under *Variable Rate Debt Securities*. We will state in the applicable prospectus supplement if we determine that a particular debt security will be an original issue discount debt security.

In general, your debt security is not an original issue discount debt security if the amount by which its stated redemption price at maturity exceeds its issue price is less than the *de minimis* amount of 0.25 percent of its stated redemption price at maturity multiplied by the number of complete years to its maturity. Your debt security will have *de minimis* original issue discount if the amount of the excess is less than the *de minimis* amount. If your debt security has *de minimis* original issue discount, you must include the *de minimis* amount in income as stated principal payments are made on the debt security, unless you make the election described below under *Election to Treat All Interest as Original Issue Discount*. You can determine the includible amount with respect to each such payment by multiplying the total amount of your debt security's *de minimis* original issue discount by a fraction equal to:

the amount of the principal payment made

divided by:

the stated principal amount of the debt security.

Any amount of *de minimis* original issue discount includable in income will be treated as capital gain.

Generally, if your original issue discount debt security matures more than one year from its date of issue, you must include original issue discount in income before you receive cash attributable to that income. The amount of original issue discount that you must include in income is calculated using a constant-yield method, and generally you will include increasingly greater amounts of original issue discount in income over the life of your debt security. More specifically, you can calculate the amount of original issue discount that you must include in income by adding the daily portions of original issue discount with respect to your original issue discount debt security for each day during the taxable year or portion of the taxable year that you hold your original issue discount debt security. You can determine the daily portion by allocating to each day in any accrual period a pro rata portion of the original issue discount allocable to that accrual period. You may select an accrual period of any length with respect to your original issue discount debt security and you may vary the length of each accrual period over the term of your original issue discount debt security. However, no accrual period may be longer than one year and each scheduled payment of interest or principal on the original issue discount debt security must occur on either the first or final day of an accrual period.

You can determine the amount of original issue discount allocable to an accrual period by:

multiplying your original issue discount debt security's adjusted issue price at the beginning of the accrual period by your debt security's yield to maturity; and then

subtracting from this figure the sum of the payments of qualified stated interest on your debt security allocable to the accrual period.



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You must determine the original issue discount debt security's yield to maturity on the basis of compounding at the close of each accrual period and adjusting for the length of each accrual period. Further, you determine your original issue discount debt security's adjusted issue price at the beginning of any accrual period by:

adding your original issue discount debt security's issue price and any accrued original issue discount for each prior accrual period (determined without regard to the amortization of any acquisition or bond premium, as described below); and then

subtracting any payments previously made on your original issue discount debt security that were not qualified stated interest payments.

If an interval between payments of qualified stated interest on your original issue discount debt security contains more than one accrual period, then, when you determine the amount of original issue discount allocable to an accrual period, you must allocate the amount of qualified stated interest payable at the end of the interval, including any qualified stated interest that is payable on the first day of the accrual period immediately following the interval, pro rata to each accrual period in the interval based on their relative lengths. In addition, you must increase the adjusted issue price at the beginning of each accrual period in the interval by the amount of any qualified stated interest that has accrued prior to the first day of the accrual period but that is not payable until the end of the interval. You may compute the amount of original issue discount allocable to an initial short accrual period by using any reasonable method if all other accrual periods, other than a final short accrual period, are of equal length.

The amount of original issue discount allocable to the final accrual period is equal to the difference between:

the amount payable at the maturity of your debt security, other than any payment of qualified stated interest; and

your debt security's adjusted issue price as of the beginning of the final accrual period.

### *Acquisition Premium*

If you purchase your debt security for an amount that is less than or equal to the sum of all amounts, other than qualified stated interest, payable on your debt security after the purchase date but is greater than the amount of your debt security's adjusted issue price, as determined above under **General**, the excess is acquisition premium. If you do not make the election described below under **Election to Treat All Interest as Original Issue Discount**, then you must reduce the daily portions of original issue discount by a fraction equal to:

the excess of your adjusted basis in the debt security immediately after purchase over the adjusted issue price of the debt security

divided by:

the excess of the sum of all amounts payable, other than qualified stated interest, on the debt security after the purchase date over the adjusted issue price of the debt security.

*Pre-Issuance Accrued Interest*

An election may be made to decrease the issue price of your debt security by the amount of pre-issuance accrued interest if:

a portion of the initial purchase price of your debt security is attributable to pre-issuance accrued interest;

the first stated interest payment on your debt security is to be made within one year of your debt security's issue date; and

the payment will equal or exceed the amount of pre-issuance accrued interest.

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If this election is made, a portion of the first stated interest payment will be treated as a return of the excluded pre-issuance accrued interest and not as an amount payable on your debt security.

### *Debt Securities Subject to Contingencies Including Optional Redemption*

Your debt security is subject to a contingency if it provides for an alternative payment schedule or schedules applicable upon the occurrence of a contingency or contingencies, other than a remote or incidental contingency, whether such contingency relates to payments of interest or of principal. In such a case, you must determine the yield and maturity of your debt security by assuming that the payments will be made according to the payment schedule most likely to occur if:

the timing and amounts of the payments that comprise each payment schedule are known as of the issue date; and

one of such schedules is significantly more likely than not to occur.

If there is no single payment schedule that is significantly more likely than not to occur, other than because of a mandatory sinking fund, you must include income on your debt security in accordance with the general rules that govern contingent payment obligations. These rules will be discussed in the applicable prospectus supplement.

Notwithstanding the general rules for determining yield and maturity, if your debt security is subject to contingencies, and either you or we have an unconditional option or options that, if exercised, would require payments to be made on the debt security under an alternative payment schedule or schedules, then:

in the case of an option or options that we may exercise, we will be deemed to exercise or not exercise an option or combination of options in the manner that minimizes the yield on your debt security; and

in the case of an option or options that you may exercise, you will be deemed to exercise or not exercise an option or combination of options in the manner that maximizes the yield on your debt security.

If both you and we hold options described in the preceding sentence, those rules will apply to each option in the order in which they may be exercised. You may determine the yield on your debt security for the purposes of those calculations by using any date on which your debt security may be redeemed or repurchased as the maturity date and the amount payable on the date that you chose in accordance with the terms of your debt security as the principal amount payable at maturity.

If a contingency, including the exercise of an option, actually occurs or does not occur contrary to an assumption made according to the above rules then, except to the extent that a portion of your debt security is repaid as a result of this change in circumstances and solely to determine the amount and accrual of original issue discount, you must redetermine the yield and maturity of your debt security by treating your debt security as having been retired and reissued on the date of the change in circumstances for an amount equal to your debt security's adjusted issue price on that date.

*Election to Treat All Interest as Original Issue Discount*

You may elect to include in gross income all interest that accrues on your debt security using the constant-yield method described above under General , with the modifications described below. For purposes of this election, interest will include stated interest, original issue discount, *de minimis* original issue discount, market discount, *de minimis* market discount and unstated interest, as adjusted by any amortizable bond premium, described below under Debt Securities Purchased at a Premium , or acquisition premium.

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If you make this election for your debt security, then, when you apply the constant-yield method:

the issue price of your debt security will equal your cost;

the issue date of your debt security will be the date you acquired it; and

no payments on your debt security will be treated as payments of qualified stated interest.

Generally, this election will apply only to the debt security for which you make it; however, if the debt security has amortizable bond premium, you will be deemed to have made an election to apply amortizable bond premium against interest for all debt instruments with amortizable bond premium, other than debt instruments the interest on which is excludible from gross income, that you hold as of the beginning of the taxable year to which the election applies or any taxable year thereafter. Additionally, if you make this election for a market discount debt security, you will be treated as having made the election discussed below under **Market Discount** to include market discount in income currently over the life of all debt instruments that you currently own or later acquire. You may not revoke any election to apply the constant-yield method to all interest on a debt security or the deemed elections with respect to amortizable bond premium or market discount debt securities without the consent of the United States Internal Revenue Service.

### *Variable Rate Debt Securities*

Your debt security will be a variable rate debt security if:

your debt security's issue price does not exceed the total non-contingent principal payments by more than the lesser of:

- (1) 0.015 multiplied by the product of the total non-contingent principal payments and the number of complete years to maturity from the issue date; or
- (2) 15 percent of the total non-contingent principal payments; and

your debt security provides for stated interest, compounded or paid at least annually, only at:

- (1) one or more qualified floating rates;
- (2) a single fixed rate and one or more qualified floating rates;
- (3) a single objective rate; or
- (4) a single fixed rate and a single objective rate that is a qualified inverse floating rate.

Your debt security will have a variable rate that is a qualified floating rate if:

variations in the value of the rate can reasonably be expected to measure contemporaneous variations in the cost of newly borrowed funds in the currency in which your debt security is denominated; or

the rate is equal to such a rate multiplied by either:

- (1) a fixed multiple that is greater than 0.65 but not more than 1.35; or
- (2) a fixed multiple greater than 0.65 but not more than 1.35, increased or decreased by a fixed rate; and

the value of the rate on any date during the term of your debt security is set no earlier than three months prior to the first day on which that value is in effect and no later than one year following that first day.

If your debt security provides for two or more qualified floating rates that are within 0.25 percentage points of each other on the issue date or can reasonably be expected to have approximately the same values throughout the term of the debt security, the qualified floating rates together constitute a single qualified floating rate.

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Your debt security will not have a qualified floating rate, however, if the rate is subject to certain restrictions (including caps, floors, governors or other similar restrictions) unless such restrictions are fixed throughout the term of the debt security or are not reasonably expected to significantly affect the yield on the debt security.

Your debt security will have a variable rate that is a single objective rate if:

the rate is not a qualified floating rate;

the rate is determined using a single, fixed formula that is based on objective financial or economic information that is not within the control of or unique to the circumstances of the issuer or a related party; and

the value of the rate on any date during the term of your debt security is set no earlier than three months prior to the first day on which that value is in effect and no later than one year following that first day.

Your debt security will not have a variable rate that is an objective rate, however, if it is reasonably expected that the average value of the rate during the first half of your debt security's term will be either significantly less than or significantly greater than the average value of the rate during the final half of your debt security's term.

An objective rate as described above is a qualified inverse floating rate if:

the rate is equal to a fixed rate minus a qualified floating rate and

the variations in the rate can reasonably be expected to inversely reflect contemporaneous variations in the cost of newly borrowed funds.

Your debt security will also have a single qualified floating rate or an objective rate if interest on your debt security is stated at a fixed rate for an initial period of one year or less followed by either a qualified floating rate or an objective rate for a subsequent period, and either:

the fixed rate and the qualified floating rate or objective rate have values on the issue date of the debt security that do not differ by more than 0.25 percentage points; or

the value of the qualified floating rate or objective rate is intended to approximate the fixed rate.

In general, if your variable rate debt security provides for stated interest at a single qualified floating rate or objective rate, or one of those rates after a single fixed rate for an initial period, all stated interest on your debt security is qualified stated interest. Inze:10pt;">

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6.375% Senior Notes Due 2036<sup>(1)</sup>

400

400

400

6

7

7

394

393

393

6.875% Medium-Term Notes Due 2015

—

200

—

—

—

—

—

200

—

6.9% Notes Due 2026

2

2



2

—

—

—

2

2

2

7.125% Debentures Due 2023

10

10

10

—

—

—

10

10

10

7.4% Debentures Due 2037

326

326

326

1

1

1

325

325

325

7.625% Notes Due 2097

500

500

500

—

—

—

500

500

500

7.65% Debentures Due 2016

78

200

78

—

—

—

78

200

78

7.95% Debentures Due 2017

220

285

220

—

—

—

220

285

220

8.125% Senior Notes Due 2019

400

—

400

9

—

10

391

—

390

2013 Term Loan Facility

2,205

2,228

2,216

50

67

58

2,155

2,161

2,158

2014 Term Loan

495

500

498

12

14

13

483

486

485

Total debt, excluding capital leases and note payable

\$

5,336

\$

5,351

\$

5,350

\$  
83

\$  
96

\$  
95

\$  
5,253

\$  
5,255

\$  
5,255

Less: current maturities

28

28

28

Total long-term debt, excluding capital leases and note payable

\$  
5,225

\$  
5,227

\$  
5,227

(1) These debt issuances contain change of control provisions that would obligate us, at the holders' option, to repurchase the debt at a price equal to 101% of the principal amount of the debt.

#### 6. Derivative Financial Instruments

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

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The fair value of our interest rate swaps are recorded on the unaudited Interim Consolidated Balance Sheets as an asset or a liability (see Note 7). The effective portion of the interest rate swaps' changes in fair values is reported in Accumulated other comprehensive income/(loss) (see Note 8), and the ineffective portion is reported in Net income/(loss). Amounts in Accumulated other comprehensive income/(loss) are reclassified into net income/(loss) when the related interest payments affect earnings. For the periods presented, all of the interest rate swaps were 100% effective.

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

(\$ in millions)	Three Months Ended		Six Months Ended		Line Item in the Unaudited Interim Financial Statements
	August 1, 2015	August 2, 2014	August 1, 2015	August 2, 2014	
Gain/(loss) recognized in other comprehensive income/(loss)	\$ (9)	) \$ —	\$ (9)	) \$ —	Accumulated other comprehensive income
Gain/(loss) recognized in net income/(loss)	(2)	) —	(2)	) —	Interest expense

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

(\$ in millions)	Asset Derivatives at Fair Value				Liability Derivatives at Fair Value			
	Balance Sheet Location	August 1, 2015	August 2, 2014	January 31, 2015	Balance Sheet Location	August 1, 2015	August 2, 2014	January 31, 2015
Derivatives designated as hedging instruments:								
Interest rate swaps	N/A	\$ —	\$ —	\$ —	Other accounts payable and accrued expenses	\$ 2	\$ —	\$ —
Interest rate swaps	N/A	—	—	—	Other liabilities	9	—	—
Total derivatives designated as hedging instruments		\$ —	\$ —	\$ —		\$ 11	\$ —	\$ —

## 7. Fair Value Disclosures

## Cash Flow Hedges Measured on a Recurring Basis

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

Our cash flow hedges measured at fair value are as follows:

## Cash Flow Hedges at Fair Value

(\$ in millions)

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	Quoted Prices in Active Markets of Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
August 1, 2015	\$—	\$(11	) \$—
August 2, 2014	—	—	—
January 31, 2015	—	—	—

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## Other Financial Instruments

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

(\$ in millions)	August 1, 2015		August 2, 2014		January 31, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt, excluding unamortized debt issuance costs, including current maturities	\$5,336	\$5,002	\$5,351	\$5,072	\$5,350	\$4,834

The fair value of long-term debt was estimated by obtaining quotes from brokers or was based on current rates offered for similar debt. As of August 1, 2015, August 2, 2014 and January 31, 2015, the fair values of cash and cash equivalents, accounts payable and short-term borrowings approximated their carrying values due to the short-term nature of these instruments. In addition, the fair values of capital lease commitments and the note payable approximated their carrying values. These items have been excluded from the table above.

## Concentrations of Credit Risk

We have no significant concentrations of credit risk.

## 8. Stockholders' Equity

The following table shows the change in the components of stockholders' equity for the six months ended August 1, 2015:

(in millions)	Number of Common Shares	Common Stock	Additional Paid-in Capital	Reinvested Earnings/ (Accumulated Deficit)	Accumulated Other Comprehensive Income/(Loss)	Total Stockholders' Equity
January 31, 2015	304.9	\$152	\$4,606	\$(1,779)	\$(1,065)	\$1,914
Net income/(loss)	—	—	—	(305)	—	(305)
Other comprehensive income/(loss)	—	—	—	—	29	29
Stock-based compensation	0.6	1	21	—	—	22
August 1, 2015	305.5	\$153	\$4,627	\$(2,084)	\$(1,036)	\$1,660

## Comprehensive Income

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

(\$ in millions)	Three Months Ended August 1, 2015			August 2, 2014		
	Gross Amount	Income Tax (Expense)/ Benefit	Net Amount	Gross Amount	Income Tax (Expense)/ Benefit	Net Amount
Retirement benefit plans						
Reclassification for amortization of net actuarial (gain)/loss	\$29	\$(11)	\$18	\$16	\$(7)	\$9
Reclassification for amortization of prior service (credit)/cost	—	—	—	1	—	1
Cash flow hedges						
Net gain/(loss) on interest rate swaps	(9)	3	(6)	—	—	—
Total	\$20	\$(8)	\$12	\$17	\$(7)	\$10



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(\$ in millions)	Six Months Ended August 1, 2015			August 2, 2014		
	Gross Amount	Income Tax (Expense)/ Benefit	Net Amount	Gross Amount	Income Tax (Expense)/ Benefit	Net Amount
Retirement benefit plans						
Reclassification for amortization of net actuarial (gain)/loss	\$58	\$(23)	\$35	\$33	\$(13)	\$20
Cash flow hedges						
Net gain/(loss) on interest rate swaps	(9)	3	(6)	—	—	—
Total	\$49	\$(20)	\$29	\$33	\$(13)	\$20

The following table shows the changes in accumulated other comprehensive income/(loss) balances for the six months ended August 1, 2015:

(\$ in millions)	Net Actuarial Gain/(Loss)	Prior Service Credit/(Cost)	Foreign Currency Translation	Gain/(Loss) on Cash Flow Hedges	Accumulated Other Comprehensive Income/(Loss)
January 31, 2015	\$(1,023)	\$(40)	\$(2)	\$—	\$(1,065)
Other comprehensive income/(loss) before reclassifications	—	—	—	(7)	(7)
Amounts reclassified from accumulated other comprehensive income	35	—	—	1	36
August 1, 2015	\$(988)	\$(40)	\$(2)	\$(6)	\$(1,036)

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

(\$ in millions)	Amount Reclassified from Accumulated Other Comprehensive Income/(Loss)				Line Item in the Unaudited Interim Consolidated Statements of Operations
	Three Months Ended August 1, 2015	August 2, 2014	Six Months Ended August 1, 2015	August 2, 2014	
Amortization of retirement benefit plans					
Actuarial loss/(gain) <sup>(1)</sup>	\$29	\$16	\$58	\$33	Pension
Prior service cost/(credit) <sup>(1)</sup>	2	3	4	4	Pension
Prior service cost/(credit) <sup>(1)</sup>	(2)	(2)	(4)	(4)	SG&A
Cash flow hedges					
Realized loss/(gain)	2	—	2	—	Net interest expense
Tax (expense)/benefit	(12)	(7)	(24)	(13)	Income tax expense/(benefit)
Total, net of tax	19	10	36	20	
Total reclassifications	\$19	\$10	\$36	\$20	

(1) These accumulated other comprehensive income/(loss) components are included in the computation of net periodic benefit expense/(income). See Note 10 for additional details.



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## 9. Stock-based Compensation

We grant stock-based compensation awards to employees and non-employee directors under the J. C. Penney Company, Inc. 2014 Long-Term Incentive Plan (2014 Plan). As of August 1, 2015, a maximum of 11.6 million shares of stock were available for future grant under the 2014 Plan.

Stock-based compensation expense for the three months ended August 1, 2015 and August 2, 2014 was \$15 million and \$11 million, respectively. Stock-based compensation expense for the six months ended August 1, 2015 and August 2, 2014 was \$30 million and \$21 million, respectively. Through the first six months of 2015, the Company granted the following stock-based compensation awards:

Grant Date	Restricted Stock Units (RSU)		Stock Options		Weighted Average Grant Date Fair Value
	Time-based	Performance-based	Time-based	Weighted Average Exercise Price	
March 3, 2015	28,554	—	—	\$—	\$7.88
March 19, 2015	2,135,177	1,534,754	4,294,885	\$7.77	\$5.36
May 18, 2015	11,696	—	—	\$—	\$8.55
May 20, 2015	15,878	31,755	38,624	\$8.66	\$6.38
June 4, 2015	49,190	98,380	123,188	\$8.64	\$6.28
June 11, 2015 <sup>(1)</sup>	31,437	—	78,358	\$8.35	\$4.78
Total	2,271,932	1,664,889	4,535,055	\$7.81	\$5.40

(1) RSUs and options were granted under an equity inducement plan.

Performance-based awards that ultimately vest are dependent on market performance targets measured by the achievement of internal profitability targets for 2015 through 2017 (performance condition).

In addition to the grants above, on March 19, 2015, we granted approximately 2.5 million phantom units as part of our management incentive compensation plan, which are similar to RSUs in that the number of units granted was based on the price of our stock, but the units will be settled in cash based on the value of our stock on the vesting date, up to a maximum of \$15.54 per phantom unit. The fair value of the awards is remeasured at each reporting period and was \$8.24 per share as of August 1, 2015. Compensation expense, which is variable, is recognized over the vesting period with a corresponding liability, which is recorded in Other liabilities in our unaudited Interim Consolidated Balance Sheets. We also granted approximately 154,000 fully vested RSUs to directors during the second quarter of 2015 with a fair value of \$8.64 per RSU award.

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## 10. Retirement Benefit Plans

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

(\$ in millions)	Three Months Ended		Six Months Ended	
	August 1, 2015	August 2, 2014	August 1, 2015	August 2, 2014
<b>Primary Pension Plan</b>				
Service cost	\$18	\$16	\$35	\$31
Interest cost	49	52	98	105
Other cost	3	—	3	—
Expected return on plan assets	(89	) (87	) (178	) (174
Amortization of actuarial loss/(gain)	25	12	51	25
Amortization of prior service cost/(credit)	2	3	4	4
Net periodic benefit expense/(income)	\$8	\$(4	) \$13	\$(9
<b>Supplemental Pension Plans</b>				
Service cost	\$—	\$—	\$—	\$—
Interest cost	1	2	3	4
Amortization of actuarial loss/(gain)	4	4	7	8
Amortization of prior service cost/(credit)	—	—	—	—
Net periodic benefit expense/(income)	\$5	\$6	\$10	\$12
<b>Primary and Supplemental Pension Plans Total</b>				
Service cost	\$18	\$16	\$35	\$31
Interest cost	50	54	101	109
Other cost	3	—	3	—
Expected return on plan assets	(89	) (87	) (178	) (174
Amortization of actuarial loss/(gain)	29	16	58	33
Amortization of prior service cost/(credit)	2	3	4	4
Net periodic benefit expense/(income)	\$13	\$2	\$23	\$3
<b>Postretirement Health and Welfare Plan</b>				
Service cost	\$—	\$—	\$—	\$—
Interest cost	—	—	—	—
Amortization of actuarial loss/(gain)	—	—	—	—
Amortization of prior service cost/(credit)	(2	) (2	) (4	) (4
Net periodic benefit expense/(income)	\$(2	) \$(2	) \$(4	) \$(4
<b>Retirement Benefit Plans Total</b>				
Service cost	\$18	\$16	\$35	\$31
Interest cost	50	54	101	109
Other cost	3	—	3	—
Expected return on plan assets	(89	) (87	) (178	) (174
Amortization of actuarial loss/(gain)	29	16	58	33
Amortization of prior service cost/(credit)	—	1	—	—
Net periodic benefit expense/(income)	\$11	\$—	\$19	\$(1

Net periodic benefit expense/(income) for our noncontributory postretirement health and welfare plan was predominantly included in SG&A expense in the unaudited Interim Consolidated Statements of Operations.



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## Primary Pension Plan Lump-Sum Payment Offer

In August 2015, as a result of a plan amendment, we offered approximately 31,000 retirees and beneficiaries in the Primary Pension Plan who commenced their benefit between January 1, 2000 and August 31, 2012 the option to receive a lump-sum settlement payment. In addition, we also offered approximately 8,000 participants in the Primary Pension Plan who separated from service and had a deferred vested benefit as of August 31, 2012 the option to receive a lump-sum settlement payment. These participants have until September 18, 2015 to elect to receive the lump-sum settlement payment with the payments to be made by the Company beginning on November 2, 2015 using assets from the Primary Pension Plan. Accordingly, the settlement expense related to the lump sum payments will be recognized in the fourth quarter of 2015.

## Defined Contribution Plans

Our defined contribution plans include a qualified Savings, Profit-Sharing and Stock Ownership Plan (401(k) plan), which includes a non-contributory retirement account, and a non-qualified contributory unfunded mirror savings plan offered to certain members of management. Total expense for our defined contribution plans for each of the second quarters of 2015 and 2014 was \$14 million and \$13 million, respectively, and was predominantly included in SG&A expenses in the unaudited Interim Consolidated Statements of Operations. Total expense for the first six months of 2015 and 2014 was \$27 million and \$26 million, respectively.

## 11. Restructuring and Management Transition

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

(\$ in millions)	Three Months Ended		Six Months Ended		Cumulative Amount From Program Inception Through August 1, 2015
	August 1, 2015	August 2, 2014	August 1, 2015	August 2, 2014	
Home office and stores	\$15	\$—	\$29	\$12	\$276
Management transition	1	1	7	8	231
Other	1	4	3	7	152
Total	\$17	\$5	\$39	\$27	\$659

## Home Office and Stores

During the six months ended August 1, 2015 and August 2, 2014, we recorded \$29 million and \$12 million, respectively, of charges for actions taken to reduce our home office and store expenses. In January 2015 and during the second quarter of 2015, we approved the closing of 41 department stores with closing dates all to occur during fiscal 2015. As a result of these approved closures, during the first half of 2015, we incurred charges of \$29 million related to employee termination benefits and lease termination costs associated with the closure of 39 of the 41 stores.

Last year we also closed stores as part of our turnaround efforts. During the first half of 2014, we incurred charges of \$12 million for employee termination benefits and lease termination costs associated with the closure of 32 of the 33 stores that closed during 2014.

## Management Transition

During the six months ended August 1, 2015 and August 2, 2014, we implemented changes within our management leadership team that resulted in management transition costs of \$7 million and \$8 million, respectively, for both incoming and outgoing members of management.

## Other

During the six months ended August 1, 2015 and August 2, 2014, we recorded \$3 million and \$7 million, respectively, of miscellaneous restructuring charges. The 2015 charges were related to costs associated with the closure of our Sumner, Washington store merchandise distribution center and contract termination costs associated with our previous shops strategy. The 2014 charges were primarily related to contract termination costs associated with our previous shops strategy.





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Activity for the restructuring and management transition liability for the six months ended August 1, 2015 was as follows:

(\$ in millions)	Home Office and Stores	Management Transition	Other	Total	
January 31, 2015	\$9	\$—	\$17	\$26	
Charges	29	7	3	39	
Cash payments	(16	) (5	) (5	) (26	)
Non-cash	—	(2	) (2	) (4	)
August 1, 2015	\$22	\$—	\$13	\$35	

The non-cash amounts represent charges primarily for stock-based compensation expense in conjunction with accelerated vesting related to terminations and for the write-off of store merchandise distribution center fixtures.

#### 12. Real Estate and Other, Net

Real estate and other consists of ongoing operating income from our real estate subsidiaries, net gains from the sale of facilities and equipment that are no longer used in operations, asset impairments, accruals for certain litigation and other non-operating charges and credits. In addition, during the first quarter of 2014, we entered into a joint venture in which we contributed approximately 220 acres of excess property adjacent to our home office facility in Plano, Texas (Home Office Land Joint Venture). The joint venture was formed to develop the contributed property and our proportional share of the joint venture's activities is recorded in Real estate and other, net. For the three months ended August 1, 2015 and August 2, 2014, Real estate and other, net was expense of \$19 million and income of \$53 million, respectively. For the six months ended August 1, 2015 and August 2, 2014, Real estate and other, net was income of \$16 million and \$70 million, respectively.

#### Sale of Non-Operating Assets

During the first quarter of 2015, we sold two properties used in our former auto center operations and two former outlet store locations for net proceeds of \$6 million, resulting in net gains totaling \$2 million. During the second quarter of 2015, we sold two additional properties used in our former auto center operations for net proceeds of \$7 million, resulting in net gains totaling \$6 million.

During the first quarter of 2014, we sold four properties used in our former auto center operations and excess property adjacent to our home office facility not contributed to the Home Office Land Joint Venture for net proceeds of \$15 million, resulting in net gains totaling \$12 million. During the second quarter of 2014, we sold four additional properties used in our former auto center operations for net proceeds of \$11 million, resulting in net gains totaling \$9 million.

#### Sale of Operating Assets

During the first quarter of 2015, we recognized a net gain of \$8 million for the sale of a former furniture store location and for payments received from landlords to terminate two existing leases prior to the original expiration date.

During the first quarter of 2014, we sold a former department store location with a net book value of \$1 million for net proceeds of \$2 million, realizing a gain of \$1 million.

#### Investment Income from Joint Ventures

During the first quarter of 2015, the Company recorded \$22 million for our proportional share of net income from the Home Office Land Joint Venture and received an aggregate cash distribution of \$22 million.

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

#### Other

During the second quarter of 2015, we recognized a net gain of \$3 million on a payment received from a landlord to terminate an existing lease prior to its original expiration date.

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## 13. Income Taxes

Income taxes for the three months ended August 1, 2015 was a benefit of \$3 million compared to a benefit of \$4 million for the three months ended August 2, 2014. The effective tax rate for the three months ended August 1, 2015 was (2.1)% as compared to (2.3)% for the three months ended August 2, 2014. Income taxes for the six months ended August 1, 2015 was a benefit of \$9 million compared to an expense of \$4 million for the six months ended August 2, 2014. The effective tax rate for the six months ended August 1, 2015 was (2.9)% as compared to 0.8% for the six months ended August 2, 2014. Our effective tax rate for the three and six months ended August 1, 2015 was impacted by a net increase to the tax valuation allowance for deferred tax assets of \$46 million and \$90 million, respectively.

In assessing the need for the valuation allowance, we considered both positive and negative evidence related to the likelihood of realization of the deferred tax assets. As a result of our assessment, we concluded that, beginning in the second quarter of 2013, our estimate of the realization of deferred tax assets would be based solely on the future reversals of existing taxable temporary differences and tax planning strategies that we would make use of to accelerate taxable income to utilize expiring carryforwards. Accordingly, in the second quarter of 2015, the valuation allowance was increased to offset the net deferred tax assets created in the quarter relating primarily to the increase in net operating loss (NOL) carryforwards. A valuation allowance of \$874 million has been recorded against our deferred tax assets as of August 1, 2015, which resulted in an increase to the valuation allowance during the six months ended August 1, 2015 of \$90 million.

The net tax benefit of \$3 million for the three months ended August 1, 2015 consisted of state and foreign tax expenses of \$3 million and \$2 million of expense related to the deferred tax asset change arising from the tax amortization of indefinite-lived intangible assets, offset by an \$8 million benefit relating to other comprehensive income. In accordance with GAAP, we are required to allocate a portion of our tax provision between operating losses and accumulated other comprehensive income. Application of this guidance required the recognition of an income tax benefit of \$8 million in operating results, offset by an \$8 million charge to other comprehensive income for the quarter.

The net tax benefit of \$9 million for the six months ended August 1, 2015 consisted of state and foreign tax expenses of \$7 million and \$4 million of expense related to the deferred tax asset change arising from the tax amortization of indefinite-lived intangible assets, offset by a \$20 million benefit relating to other comprehensive income. In accordance with GAAP, we are required to allocate a portion of our tax provision between operating losses and accumulated other comprehensive income. Application of this guidance required the recognition of an income tax benefit of \$20 million in operating results, offset by a \$20 million charge to other comprehensive income for the quarter.

As of August 1, 2015, we have approximately \$2.7 billion of net operating losses available for U.S. federal income tax purposes, which expire in 2032 through 2035 and \$53 million of tax credit carryforwards that expire at various dates through 2034. For these NOL and tax credit carryforwards a net deferred tax asset of \$300 million has been recorded, net of a valuation allowance of \$659 million. A valuation allowance of \$215 million fully offsets the deferred tax assets resulting from the state NOL carryforwards that expire at various dates through 2035.

## 14. Litigation, Other Contingencies and Guarantees

## Litigation

## Macy's Litigation

On August 16, 2012, Macy's, Inc. and Macy's Merchandising Group, Inc. (together the Plaintiffs) filed suit against JCP in the Supreme Court of the State of New York, County of New York, alleging that the Company tortiously interfered with, and engaged in unfair competition relating to, a 2006 agreement between Macy's and Martha Stewart Living Omnimedia, Inc. (MSLO) by entering into a partnership agreement with MSLO in December 2011. The Plaintiffs sought primarily to prevent the Company from implementing our partnership agreement with MSLO as it related to products in the bedding, bath, kitchen and cookware categories. The suit was consolidated with an already-existing breach of contract lawsuit by the Plaintiffs against MSLO, and a bench trial commenced on February 20, 2013. On

October 21, 2013, the Company and MSLO entered into an amendment of the partnership agreement, providing in part that the Company will not sell MSLO-designed merchandise in the bedding, bath, kitchen and cookware categories. On January 2, 2014, MSLO and Macy's announced that they had settled the case as to each other, and MSLO was subsequently dismissed as a defendant. On June 16, 2014, the Court issued a ruling against the Company on the remaining claim of intentional interference, and held that Macy's is not entitled to punitive damages. The Court referred other issues related to damages to a Judicial Hearing Officer. On June 30, 2014, the Company appealed the Court's decision, and Macy's cross-appealed a portion of the decision. On February 26, 2015, the appellate court affirmed the trial court's rulings concerning the claim of intentional interference and lack of punitive damages, and reinstated Macy's claims for intentional interference and unfair competition that had been dismissed during trial. While no assurance can

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be given as to the ultimate outcome of this matter, we believe that the final resolution of this action will not have a material adverse effect on our results of operations, financial position, liquidity or capital resources.

### Ozenne Derivative Lawsuit

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

### Class Action Securities Litigation

The Company, Myron E. Ullman, III and Kenneth H. Hannah are parties to the Marcus consolidated purported class action lawsuit in the U.S. District Court, Eastern District of Texas, Tyler Division. The Marcus consolidated complaint is purportedly brought on behalf of persons who acquired our common stock during the period from August 20, 2013 through September 26, 2013, and alleges claims for violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder. Plaintiff claims that the defendants made false and misleading statements and/or omissions regarding the Company's financial condition and business prospects that caused our common stock to trade at artificially inflated prices. The consolidated complaint seeks class certification, unspecified compensatory damages, including interest, reasonable costs and expenses, and other relief as the court may deem just and proper. Defendants have filed a motion to dismiss the consolidated complaint. Briefing on the motion to dismiss was completed in November, 2014.

Also, on August 26, 2014, plaintiff Nathan Johnson filed a purported class action lawsuit against the Company, Myron E. Ullman, III and Kenneth H. Hannah in the U.S. District Court, Eastern District of Texas, Tyler Division. The suit is purportedly brought on behalf of persons who acquired our securities other than common stock during the period from August 20, 2013 through September 26, 2013, generally mirrors the allegations contained in the Marcus lawsuit discussed above, and seeks similar relief. On June 8, 2015, plaintiff in the Marcus lawsuit amended the consolidated complaint to include the members of the purported class in the Johnson lawsuit, and on June 10, 2015, the Johnson lawsuit was consolidated into the Marcus lawsuit.

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

### Shareholder Derivative Litigation

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

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### ERISA Class Action Litigation

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

### Employment Class Action Litigation

JCP is a defendant in a class action proceeding entitled *Tschudy v. JCPenney Corporation* filed on April 15, 2011 in the U.S. District Court, Southern District of California. The lawsuit alleges that JCP violated the California Labor Code in connection with the alleged forfeiture of accrued and vested vacation time under its "My Time Off" policy. The class consists of all JCP employees who worked in California from April 5, 2007 to the present. Plaintiffs amended the complaint to assert additional claims under the Illinois Wage Payment and Collection Act on behalf of all JCP employees who worked in Illinois from January 1, 2004 to the present. After the court granted JCP's motion to transfer the Illinois claims, those claims are now pending in a separate action in the U.S. District Court, Northern District of Illinois, entitled *Garcia v. JCPenney Corporation*. The lawsuits seek compensatory damages, penalties, interest, disgorgement, declaratory and injunctive relief, and attorney's fees and costs. Plaintiffs in both lawsuits filed motions, which the Company opposed, to certify these actions on behalf of all employees in California and Illinois based on the specific claims at issue. On December 17, 2014, the California court granted plaintiffs' request for class certification. The Illinois court denied without prejudice plaintiffs' motion for class certification pending the filing of an amended complaint. Plaintiffs filed their amended complaint in the Illinois lawsuit on April 14, 2015 and the Company has answered. On July 2, 2015, the Illinois plaintiffs renewed their motion for class certification, which the Company has opposed. We believe these lawsuits are without merit and we intend to continue to vigorously defend these lawsuits. While no assurance can be given as to the ultimate outcome of these matters, we believe that the final resolution of these actions will not have a material adverse effect on our results of operations, financial position, liquidity or capital resources.

### Pricing Class Action Litigation

JCP is a defendant in a class action proceeding entitled *Spann v. J. C. Penney Corporation, Inc.* filed on February 8, 2012 in the U.S. District Court, Central District of California. The lawsuit alleges that JCP violated California's Unfair Competition Law and related state statutes in connection with its advertising of sale prices for private label apparel and accessories. The lawsuit seeks restitution, damages, injunctive relief, and attorney's fees and costs. On May 18, 2015, the court granted plaintiff's request for certification of a class consisting of all people who, between November 5, 2010 and January 31, 2012, made purchases in California of JCP private or exclusive label apparel or accessories advertised at a discount of at least 30% off the stated original or regular price (excluding those who only received such discount by using coupon(s)), and who have not received a refund or credit for their purchases. We believe this lawsuit is without merit and we intend to continue to vigorously defend this lawsuit. While no assurance can be given as to the ultimate outcome of this matter, we believe that the final resolution of this action will not have a material adverse effect on our results of operations, financial position, liquidity or capital resources.



Other Legal Proceedings

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

We are subject to various other legal and governmental proceedings involving routine litigation incidental to our business. Accruals have been established based on our best estimates of our potential liability in certain of these matters, including

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certain matters discussed above, all of which we believe aggregate to an amount that is not material to the unaudited Interim Consolidated Financial Statements. These estimates were developed in consultation with in-house and outside counsel. While no assurance can be given as to the ultimate outcome of these matters, we currently believe that the final resolution of these actions, individually or in the aggregate, will not have a material adverse effect on our results of operations, financial position, liquidity or capital resources.

Contingencies

As of August 1, 2015, we estimated our total potential environmental liabilities to range from \$19 million to \$25 million and recorded our best estimate of \$22 million in Other accounts payable and accrued expenses and Other liabilities in the unaudited Interim Consolidated Balance Sheet as of that date. This estimate covered potential liabilities primarily related to underground storage tanks, remediation of environmental conditions involving our former drugstore locations and asbestos removal in connection with approved plans to renovate or dispose of our facilities. We continue to assess required remediation and the adequacy of environmental reserves as new information becomes available and known conditions are further delineated. If we were to incur losses at the upper end of the estimated range, we do not believe that such losses would have a material adverse effect on our results of operations, financial position, liquidity or capital resources.

Guarantees

In connection with the sale of the operations of our outlet stores, we assigned leases on certain outlet store locations to the purchaser. In the event that the purchaser fails to make the required lease payments, we continue for a period of time to be liable for lease payments to the landlords of several of the leased stores. The purchaser's obligations under the lease are guaranteed to us by certain principals and affiliates of the purchaser. However, the purchaser has elected to exit the outlet business and has successfully negotiated termination of all but two of the leases with the landlords. As of August 1, 2015, our maximum liability in connection with the assigned leases was \$3 million.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

General

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

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

This discussion is intended to provide information that will assist the reader in understanding our financial statements, the changes in certain key items in those financial statements from period to period, and the primary factors that accounted for those changes, how operating results affect the financial condition and results of operations of our Company as a whole, as well as how certain accounting principles affect the financial statements. It should be read in conjunction with our consolidated financial statements as of January 31, 2015, and for the year then ended, and related Notes, and Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A), all contained in the Annual Report on Form 10-K for the fiscal year ended January 31, 2015 (2014 Form 10-K). Unless otherwise indicated, all references to earnings/(loss) per share (EPS) are on a diluted basis and all references to years relate to fiscal years rather than to calendar years.

Second Quarter Summary and Key Developments

Sales were \$2,875 million with a comparable store sales increase of 4.1%.

Gross margin as a percentage of sales increased to 37.0% compared to 36.0% in the same period last year, driven by improvements in our clearance and promotional selling margins.

Selling, general and administrative (SG&A) expenses decreased \$63 million, or 6.5%, for the second quarter of 2015 as compared to the corresponding quarter in 2014. These savings were primarily driven by lower store controllable costs, advertising and improved credit card revenue.

Earnings before interest expense, income tax (benefit)/expense and depreciation and amortization (EBITDA) (non-GAAP) was \$115 million, a \$25 million improvement from the same period last year.

Our net loss was \$138 million, or \$0.45 per share, compared to a net loss of \$172 million, or \$0.56 per share, for the corresponding prior year quarter. Results for this quarter included the following amounts that are not directly related to our ongoing core business operations:

\$17 million, or \$0.05 per share, of restructuring and management transition charges;

\$8 million, or \$0.03 per share, of expense from our qualified defined benefit pension plan (Primary Pension Plan);

\$6 million, or \$0.02 per share, for the net gain on the sale of non-operating assets;

\$7 million, or \$0.02 per share, of tax benefit that resulted from our other comprehensive income allocation between our Operating loss and Accumulated other comprehensive income for the amortization of net actuarial losses and prior service credits related to the Primary Pension Plan and the tax effect for the loss on our interest rate swaps.

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## Results of Operations

(\$ in millions, except EPS)	Three Months Ended		Six Months Ended			
	August 1, 2015	August 2, 2014	August 1, 2015	August 2, 2014		
Total net sales	\$2,875	\$2,799	\$5,732	\$5,600		
Percent increase/(decrease) from prior year	2.7	% 5.1	% 2.4	% 5.7		%
Comparable store sales increase/(decrease) <sup>(1)</sup>	4.1	% 6.0	% 3.7	% 6.6		%
Gross margin	1,065	1,008	2,106	1,934		
Operating expenses/(income):						
Selling, general and administrative	901	964	1,866	1,973		
Primary pension plan	8	(4 )	13	(9 )		
Supplemental pension plans	5	6	10	12		
Total pension	13	2	23	3		
Depreciation and amortization	153	160	307	318		
Real estate and other, net	19	(53 )	(16 )	(70 )		
Restructuring and management transition	17	5	39	27		
Total operating expenses	1,103	1,078	2,219	2,251		
Operating income/(loss)	(38 )	(70 )	(113 )	(317 )		
Net interest expense	103	106	201	203		
Income/(loss) before income taxes	(141 )	(176 )	(314 )	(520 )		
Income tax expense/(benefit)	(3 )	(4 )	(9 )	4		
Net income/(loss)	\$(138 )	\$(172 )	\$(305 )	\$(524 )		
EBITDA (non-GAAP) <sup>(2)</sup>	\$115	\$90	\$194	\$1		
Adjusted EBITDA (non-GAAP) <sup>(2)</sup>	\$134	\$39	\$216	\$(45 )		
Adjusted net income/(loss) (non-GAAP) <sup>(2)</sup>	\$(126 )	\$(228 )	\$(301 )	\$(581 )		
Diluted EPS	\$(0.45 )	\$(0.56 )	\$(1.00 )	\$(1.72 )		
Adjusted diluted EPS (non-GAAP) <sup>(2)</sup>	\$(0.41 )	\$(0.75 )	\$(0.98 )	\$(1.90 )		
Ratios as a percent of sales:						
Gross margin	37.0	% 36.0	% 36.7	% 34.5		%
SG&A	31.3	% 34.4	% 32.6	% 35.2		%
Total operating expenses	38.4	% 38.5	% 38.7	% 40.2		%
Operating income/(loss)	(1.3 )	)% (2.5 )	)% (2.0 )	)% (5.7 )		)%

Comparable store sales include sales from all stores, including sales from services and commissions earned from our in-store licensed departments, that have been open for 12 consecutive full fiscal months and Internet sales (1) through jcp.com. Stores closed for an extended period are not included in comparable store sales calculations, while stores remodeled and minor expansions not requiring store closure remain in the calculations. Certain items, such as sales return estimates and store liquidation sales, are excluded from the Company's calculation.

(2) See "Non-GAAP Financial Measures" below for a discussion of this non-GAAP measure and reconciliation to its most directly comparable GAAP financial measure and further information on its uses and limitations.

## Non-GAAP Financial Measures

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



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The following non-GAAP financial measures are adjusted to exclude restructuring and management transition charges, the impact of our Primary Pension Plan, the net gain on the sale of non-operating assets, the proportional share of net income from our joint venture formed to develop the excess property adjacent to our home office facility in Plano, Texas (Home Office Land Joint Venture) and the tax impact for the allocation of income taxes to other comprehensive income items related to our Primary Pension Plan and interest rate swaps. Unlike other operating expenses, restructuring and management transition charges, the net gain on the sale of non-operating assets, the proportional share of net income from our Home Office Land Joint Venture and the tax impact for the allocation of income taxes to other comprehensive income items related to our Primary Pension Plan and interest rate swaps are not directly related to our ongoing core business operations. Primary Pension Plan expense/(income) is determined using numerous complex assumptions about changes in pension assets and liabilities that are subject to factors beyond our control, such as market volatility. Accordingly, we eliminate our Primary Pension Plan expense/(income) in its entirety as we view all components of net periodic benefit expense/(income) as a single, net amount, consistent with its presentation in our Consolidated Financial Statements. We believe it is useful for investors to understand the impact of restructuring and management transition charges, Primary Pension Plan expense/(income), the net gain on the sale of non-operating assets, the proportional share of net income from the Home Office Land Joint Venture and the tax impact for the allocation of income taxes to other comprehensive income items related to our Primary Pension Plan and interest rate swaps on our financial results and therefore are presenting the following non-GAAP financial measures: (1) adjusted EBITDA; (2) adjusted net income/(loss); and (3) adjusted earnings/(loss) per share-diluted.

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

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

(\$ in millions)	Three Months Ended		Six Months Ended	
	August 1, 2015	August 2, 2014	August 1, 2015	August 2, 2014
Net income/(loss)	\$(138 )	\$(172 )	\$(305 )	\$(524 )
Add: Net interest expense	103	106	201	203
Add: Income tax expense/(benefit)	(3 )	(4 )	(9 )	4
Add: Depreciation and amortization	153	160	307	318
EBITDA (non-GAAP)	115	90	194	1
Add: Restructuring and management transition charges	17	5	39	27
Add: Primary pension plan expense/(income)	8	(4 )	13	(9 )
Less: Net gain on the sale of non-operating assets	(6 )	(9 )	(8 )	(21 )
Less: Proportional share of net income from joint venture	—	(43 )	(22 )	(43 )
Adjusted EBITDA (non-GAAP)	\$134	\$39	\$216	\$(45 )

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Adjusted Net Income/(Loss) and Adjusted Diluted EPS. The following table reconciles net income/(loss) and diluted EPS, the most directly comparable GAAP financial measures, to adjusted net income/(loss) and adjusted diluted EPS, which are non-GAAP financial measures:

(\$ in millions, except per share data)	Three Months Ended		Six Months Ended	
	August 1, 2015	August 2, 2014	August 1, 2015	August 2, 2014
Net income/(loss)	\$ (138)	) \$ (172)	) \$ (305)	) \$ (524)
Diluted EPS	\$ (0.45)	) \$ (0.56)	) \$ (1.00)	) \$ (1.72)
Add: Restructuring and management transition charges, net of tax of \$-, \$-, \$- and \$-(1)	17	5	39	27
Add: Primary pension plan expense/(income), net of tax of \$-, \$-, \$- and \$-(2)	8	(4)	) 13	(9)
Less: Net gain on sale of non-operating assets, net of tax of \$-, \$-, \$- and \$-(3)	(6)	) (9)	) (8)	) (21)
Less: Proportional share of net income from joint venture, net of tax of \$-, \$-, \$- and \$-(1)	—	(43)	) (22)	) (43)
Less: Tax impact resulting from other comprehensive income allocation(4)	(7)	) (5)	) (18)	) (11)
Adjusted net income/(loss) (non-GAAP)	\$ (126)	) \$ (228)	) \$ (301)	) \$ (581)
Adjusted diluted EPS (non-GAAP)	\$ (0.41)	) \$ (0.75)	) \$ (0.98)	) \$ (1.90)

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

(2) The tax effect is included in the line item Tax benefit resulting from other comprehensive income allocation. See footnote 4 below.

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

Represents the net tax benefit that resulted from our other comprehensive income allocation between our operating (4) loss and Accumulated other comprehensive income for the amortization of net actuarial losses and prior service credits related to the Primary Pension Plan and the tax effect for the loss on our interest rate swaps.

## Total Net Sales

(\$ in millions)	Three Months Ended		Six Months Ended	
	August 1, 2015	August 2, 2014	August 1, 2015	August 2, 2014
Total net sales	\$2,875	\$2,799	\$5,732	\$5,600
Sales percent increase/(decrease):				
Total net sales	2.7	% 5.1	% 2.4	% 5.7
Comparable store sales	4.1	% 6.0	% 3.7	% 6.6

Total net sales increased \$76 million in the second quarter of 2015 compared to the second quarter of 2014. For the first six months of 2015, total net sales increased \$132 million from the same period last year. The following table provides the components of the net sales increase/(decrease):

(\$ in millions)	Three Months Ended	Six Months Ended
	August 1, 2015	August 1, 2015
Comparable store sales increase/(decrease)	\$112	\$204
New and closed stores, net	(31)	) (77)
Other revenues and sales adjustments	(5)	) 5
Total net sales increase/(decrease)	\$76	\$132





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

• Stores increase Internet sales by providing customers opportunities to view, touch and/or try on physical merchandise before ordering online.

• Our website increases store sales as in-store customers have often pre-shopped online before shopping in the store, including verification of which stores have online merchandise in stock.

• Most Internet purchases are easily returned in our stores.

• JCP Rewards can be earned and redeemed online or in stores.

• In-store customers can order from our website with the assistance of associates in our stores or they can shop our website from the JCPenney App while inside the store.

• Customers who utilize our mobile application can receive mobile coupons to use when they check out both online or in our stores.

• Internet orders can be shipped from a dedicated jcpenny.com fulfillment center, a store, a store merchandise distribution center, a regional warehouse, directly from vendors or any combination of the above.

• Certain categories of store inventory can be accessed and purchased by jcpenny.com customers and shipped directly to the customer's home from the store.

• Internet orders can be shipped to stores for customer pick up.

• Order online and "pick-up in store same day" is planned to roll out to our stores beginning in the second half of 2015.

**Store Count**

The following table compares the number of stores and gross selling space for the three and six months ended August 1, 2015 and August 2, 2014:

	Three Months Ended		Six Months Ended	
	August 1, 2015	August 2, 2014	August 1, 2015	August 2, 2014
JCPenney department stores				
Beginning of period	1,027	1,063	1,062	1,094
Stores opened	—	—	—	—
Closed stores	(4	) (1	) (39	) (32
End of period <sup>(1)</sup>	1,023	1,062	1,023	1,062
The Foundry Big and Tall Supply Co. <sup>(2)</sup>	—	8	—	8

(1) Gross selling space, including selling space allocated to services and licensed departments, was 105 million square feet as of August 1, 2015 and 108 million square feet as of August 2, 2014.

(2) All stores closed during 2014. Gross selling space was 41 thousand square feet as of August 2, 2014.

For the three months ended August 1, 2015, comparable store sales increased 4.1%, while total net sales increased 2.7% to \$2,875 million compared with \$2,799 million for the three months ended August 2, 2014. For the six months ended August 1, 2015, comparable store sales increased 3.7%, while total net sales increased 2.4% to \$5,732 million compared with \$5,600 million for the six months ended August 2, 2014.

For the second quarter and first half of 2015, our transaction counts, conversion rate and average unit retail increased, while the average transaction value and units per transaction decreased as compared to the corresponding prior year periods. Men's, Home and Fine Jewelry merchandise divisions experienced the highest sales gains during the second quarter and first half of 2015. Sephora inside JCPenney also continued its strong performance during the periods. Geographically, all regions of the country experienced sales gains during the second quarter with the western and central regions of the country delivering the best performance.

During the second quarter of 2015, private brand merchandise comprised 45.0% of total merchandise sales as compared to 43.4% in the corresponding prior year quarter. For the first half of 2015, private brand merchandise comprised 43.9% of total

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merchandise sales as compared to 42.2% in the corresponding prior year period. During the second quarters of 2015 and 2014, exclusive brand merchandise comprised 6.6% and 9.5%, respectively, of total merchandise sales. For the first six months of 2015 and 2014, exclusive brand merchandise comprised 7.3% and 10.6%, respectively, of total merchandise sales.

**Gross Margin**

Gross margin for the three months ended August 1, 2015 was \$1,065 million, an increase of \$57 million compared to \$1,008 million for the three months ended August 2, 2014. Gross margin as a percentage of sales for the three months ended August 1, 2015 was 37.0% compared to 36.0% for the three months ended August 2, 2014. The 100 basis point increase was driven by improvements in our clearance and promotional selling margins.

Gross margin for the six months ended August 1, 2015 was \$2,106 million, an increase of \$172 million compared to \$1,934 million for the six months ended August 2, 2014. Gross margin as a percentage of sales for the six months ended August 1, 2015 was 36.7% compared to 34.5% for the six months ended August 2, 2014. The 220 basis point increase resulted primarily from significant improvement in our mix and margin on clearance sales and increased private brands penetration with higher margins.

**SG&A Expenses**

For the three months ended August 1, 2015, SG&A expenses were \$63 million lower than the corresponding period of 2014. As a percent of sales, SG&A expenses decreased to 31.3% compared to 34.4% in the second quarter of 2014. Through the first six months of 2015, SG&A expenses were \$107 million lower than the corresponding period of 2014. Through the first six months of 2015, as a percent of sales, SG&A expenses decreased to 32.6% compared to 35.2% in the corresponding period of 2014, reflecting how we effectively managed SG&A expenses throughout the first six months of 2015. The net decrease in SG&A expenses for both the second quarter and first half of 2015 as compared to the corresponding prior year periods was primarily driven by lower store controllable costs, lower advertising expenses and improved private label credit card revenue.

Our private label credit card and co-branded MasterCard® programs are owned and serviced by Synchrony Financial (Synchrony). Under our agreement with Synchrony, we receive cash payments from Synchrony based upon the performance of the credit card portfolio. We participate in the programs by providing marketing promotions designed to increase the use of each card, including enhanced marketing offers for cardholders. Additionally, we accept payments in our stores from cardholders who prefer to pay in person when they are shopping in our locations. The income we earn under our agreement with Synchrony is included as an offset to Selling, general and administrative expenses. For the second quarters of 2015 and 2014, we recognized income of \$58 million and \$38 million, respectively, pursuant to our agreement with Synchrony. Through the first halves of 2015 and 2014, we recognized income of \$114 million and \$82 million, respectively.

**Pension Expense**

(\$ in millions)	Three Months Ended		Six Months Ended	
	August 1, 2015	August 2, 2014	August 1, 2015	August 2, 2014
Primary Pension Plan	\$8	\$(4 )	\$13	\$(9 )
Supplemental pension plans	5	6	10	12
Total pension expense	\$13	\$2	\$23	\$3

Total pension expense, which consists of expense/(income) from our Primary Pension Plan and our supplemental pension plans, is based on our 2014 year-end measurement of pension plan assets and benefit obligations. For the second quarter of 2015, we had expense of \$8 million related to our Primary Pension Plan compared to income of \$4 million in the second quarter of 2014. For the first six months of 2015, we had expense of \$13 million compared to income of \$9 million in the prior year corresponding period. The change to expense for our Primary Pension Plan was

primarily driven by a 102 basis point decline in our discount rate; the adoption of new mortality tables for the majority of the plan participants which reflect longer life expectancy compared to previous mortality assumptions; and lowering the expected return on plan assets from 7.0% to 6.75%. These negative impacts were partially offset by asset performance in 2014. Our supplemental pension plans expense decreased \$1 million for the second quarter of 2015 to \$5 million, as compared to \$6 million in the corresponding prior year period. For the first six months of 2015, our supplemental pension plans expense decreased \$2 million to \$10 million.

In August 2015, as a result of a plan amendment, we offered approximately 31,000 retirees and beneficiaries in the Primary Pension Plan who commenced their benefit between January 1, 2000 and August 31, 2012 the option to receive a lump-sum settlement payment. In addition, we also offered approximately 8,000 participants in the Primary Pension Plan who separated from service and had a deferred vested benefit as of August 31, 2012 the option to receive a lump-sum settlement payment.

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These participants have until September 18, 2015 to elect to receive the lump-sum settlement payment with the payments to be made by the Company beginning on November 2, 2015 using assets from the Primary Pension Plan. Accordingly, the settlement expense related to the lump sum payments will be recognized in the fourth quarter of 2015.

**Depreciation and Amortization Expense**

Depreciation and amortization expense in the second quarter of 2015 decreased \$7 million to \$153 million from \$160 million for the comparable 2014 period. For the first six months of 2015, depreciation and amortization expense decreased \$11 million to \$307 million from \$318 million last year. The decrease for the first three and six months of 2015 is primarily a result of closing 72 store locations since the beginning of 2014.

**Restructuring and Management Transition**

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

(\$ in millions)	Three Months Ended		Six Months Ended	
	August 1, 2015	August 2, 2014	August 1, 2015	August 2, 2014
Home office and stores	\$15	\$—	\$29	\$12
Management transition	1	1	7	8
Other	1	4	3	7
Total	\$17	\$5	\$39	\$27

**Home Office and Stores**

During the six months ended August 1, 2015 and August 2, 2014, we recorded \$29 million and \$12 million, respectively, of charges for actions taken to reduce our home office and store expenses. In January 2015 and during the second quarter of 2015, we approved the closing of 41 department stores with closing dates all to occur during fiscal 2015. As a result of these approved closures, during the first half of 2015, we incurred charges of \$29 million related to employee termination benefits and lease termination costs associated with the closure of 39 of the 41 stores.

Last year we also closed stores as part of our turnaround efforts. During the first half of 2014, we incurred charges of \$12 million for employee termination benefits and lease termination costs associated with the closure of 32 of the 33 stores that closed during 2014.

**Management Transition**

During the six months ended August 1, 2015 and August 2, 2014, we implemented changes within our management leadership team that resulted in management transition costs of \$7 million and \$8 million, respectively, for both incoming and outgoing members of management.

**Other**

During the six months ended August 1, 2015 and August 2, 2014, we recorded \$3 million and \$7 million, respectively, of miscellaneous restructuring charges. The 2015 charges were related to costs associated with the closure of our Sumner, Washington store merchandise distribution center and contract termination costs associated with our previous shops strategy. The 2014 charges were primarily related to contract termination costs associated with our previous shops strategy.

**Real Estate and Other, Net**

Real estate and other consists of ongoing operating income from our real estate subsidiaries, net gains from the sale of facilities and equipment that are no longer used in operations, asset impairments, accruals for certain litigation and other non-operating charges and credits. In addition, during the first quarter of 2014, we entered into the Home Office Land Joint Venture in which we contributed approximately 220 acres of excess property adjacent to our home office facility in Plano, Texas. The joint venture was formed to develop the contributed property and our proportional share of the joint venture's activities is recorded in Real estate and other, net. For the three months ended August 1, 2015 and August 2, 2014, Real estate and other, net was expense of \$19 million and income of \$53 million, respectively.

For the six months ended August 1, 2015 and August 2, 2014, Real estate and other, net was income of \$16 million and \$70 million, respectively.

**Sale of Non-Operating Assets**

During the first quarter of 2015, we sold two properties used in our former auto center operations and two former outlet store locations for net proceeds of \$6 million, resulting in net gains totaling \$2 million. During the second quarter of 2015, we sold

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two additional properties used in our former auto center operations for net proceeds of \$7 million, resulting in net gains totaling \$6 million.

During the first quarter of 2014, we sold four properties used in our former auto center operations and excess property adjacent to our home office facility not contributed to the Home Office Land Joint Venture for net proceeds of \$15 million, resulting in net gains totaling \$12 million. During the second quarter of 2014, we sold four additional properties used in our former auto center operations for net proceeds of \$11 million, resulting in net gains totaling \$9 million.

### Sale of Operating Assets

During the first quarter of 2015, we recognized a net gain of \$8 million for the sale of a former furniture store location and for payments received from landlords to terminate two existing leases prior to the original expiration date.

During the first quarter of 2014, we sold a former department store location with a net book value of \$1 million for net proceeds of \$2 million, realizing a gain of \$1 million.

### Investment Income from Joint Ventures

During the first quarter of 2015, the Company recorded \$22 million for our proportional share of net income from the Home Office Land Joint Venture and received an aggregate cash distribution of \$22 million.

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

### Other

During the second quarter of 2015, we recognized a net gain of \$3 million on a payment received from a landlord to terminate an existing lease prior to its original expiration date.

### Operating Income/(Loss)

For the second quarter of 2015, we reported an operating loss of \$38 million compared to an operating loss of \$70 million in the prior year corresponding period. For the six months ended August 1, 2015, we reported an operating loss of \$113 million compared to an operating loss of \$317 million in the prior year corresponding period, reflecting better operating performance achieved by the Company.

### Net Interest Expense

Net interest expense for the second quarters of 2015 and 2014 was \$103 million and \$106 million, respectively. For the six months ended August 1, 2015, net interest expense was \$201 million compared to \$203 million in the prior year corresponding period, reflecting similar debt levels between the two periods.

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

### Income Taxes

Income taxes for the three months ended August 1, 2015 was a benefit of \$3 million compared to a benefit of \$4 million for the three months ended August 2, 2014. Income taxes for the six months ended August 1, 2015 was a benefit of \$9 million compared to an expense of \$4 million for the six months ended August 2, 2014. Income taxes for the three and six months ended August 1, 2015 were impacted by a net increase to the tax valuation allowance for deferred tax assets of \$46 million and \$90 million, respectively.

In assessing the need for the valuation allowance, we considered both positive and negative evidence related to the likelihood of realization of the deferred tax assets. Beginning in the second quarter of 2013 and for each quarter thereafter, our estimate of the realization of deferred tax assets was based solely on the future reversals of existing taxable temporary differences and tax planning strategies that we would make use of to accelerate taxable income to utilize expiring net operating loss (NOL) and tax credit carryforwards. Accordingly, in the second quarter of 2015, the

valuation allowance was increased to offset the net deferred tax assets created in the quarter relating primarily to the increase in NOL carryforwards. As of August 1, 2015, a valuation allowance of \$874 million has been recorded against our deferred tax assets.

The net tax benefit of \$3 million for the three months ended August 1, 2015 consisted of state and foreign tax expenses of \$3 million and \$2 million of expense related to the deferred tax asset change arising from the tax amortization of indefinite-lived



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intangible assets, offset by an \$8 million benefit relating to other comprehensive income. In accordance with GAAP, we are required to allocate a portion of our tax provision between operating losses and accumulated other comprehensive income. Application of this guidance required the recognition of an income tax benefit of \$8 million in operating results, offset by an \$8 million charge to other comprehensive income for the quarter.

The net tax benefit of \$9 million for the six months ended August 1, 2015 consisted of state and foreign tax expenses of \$7 million and \$4 million of expense related to the deferred tax asset change arising from the tax amortization of indefinite-lived intangible assets, offset by a \$20 million benefit relating to other comprehensive income. In accordance with GAAP, we are required to allocate a portion of our tax provision between operating losses and accumulated other comprehensive income. Application of this guidance required the recognition of an income tax benefit of \$20 million in operating results, offset by a \$20 million charge to other comprehensive income for the quarter.

EBITDA and Adjusted EBITDA (non-GAAP)

For the three months ended August 1, 2015, EBITDA was \$115 million, an improvement of \$25 million compared to EBITDA of \$90 million in the prior year corresponding period. Excluding restructuring and management transition charges, the impact of our Primary Pension Plan expense/(income), the net gain on the sale of non-operating assets and the proportional share of net income from the Home Office Land Joint Venture, adjusted EBITDA improved \$95 million to an adjusted EBITDA of \$134 million for the three months ended August 1, 2015 compared to an adjusted EBITDA of \$39 million for the prior year corresponding period.

For the six months ended August 1, 2015, EBITDA was \$194 million, an improvement of \$193 million compared to EBITDA of \$1 million in the prior year corresponding period. Excluding restructuring and management transition charges, the impact of our Primary Pension Plan expense/(income), the net gain on the sale of non-operating assets and the proportional share of net income from the Home Office Land Joint Venture, adjusted EBITDA improved \$261 million to a positive adjusted EBITDA of \$216 million for the six months ended August 1, 2015 compared to a negative adjusted EBITDA of \$45 million for the prior year corresponding period.

Overall, EBITDA and adjusted EBITDA improved significantly for the six months ended August 1, 2015 as compared to the corresponding prior year period as we were able to improve sales, achieve higher margins and reduce our operating costs.

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## Liquidity and Capital Resources

## Overview

Our primary sources of liquidity are cash generated from operations, available cash and cash equivalents and access to our revolving credit facility. Our cash flows may be impacted by many factors including the economic environment, consumer confidence, competitive conditions in the retail industry and the success of our strategies. We ended the second quarter of 2015 with \$973 million of cash and cash equivalents. As of the end of the second quarter of 2015, based on our borrowing base and amounts reserved for outstanding standby and import letters of credit, we had \$1,325 million available for future borrowings, providing a total available liquidity of \$2,298 million. During the second quarter of 2015, we entered into interest rate swap agreements with notional amounts totaling \$1,250 million to fix a portion of our variable LIBOR-based interest payments. The interest rate swap agreements, which were effective May 7, 2015, have a weighted-average fixed rate of 2.04%, mature on May 7, 2020 and have been designated as cash flow hedges.

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

(\$ in millions)	Six Months Ended	
	August 1, 2015	August 2, 2014
Cash and cash equivalents	\$973	\$1,036
Merchandise inventory	3,005	2,848
Property and equipment, net	4,989	5,415
Total debt <sup>(1)</sup>	5,298	5,329
Stockholders' equity	1,660	2,600
Total capitalization	6,958	7,929
Maximum capacity under our revolving facility	1,850	1,850
Cash flow from operating activities	(184)	(134)
Free cash flow (non-GAAP) <sup>(2)</sup>	(320)	(273)
Capital expenditures <sup>(3)</sup>	141	141
Ratios:		
Total debt-to-total capitalization <sup>(4)</sup>	76	% 67
Cash-to-total debt <sup>(5)</sup>	18	% 19

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

(2) See "Free Cash Flow" below for a reconciliation of this non-GAAP financial measure to its most directly comparable GAAP financial measure and further information on its uses and limitations.

(3) As of the end of the second quarters of 2015 and 2014, we had accrued capital expenditures of \$40 million and \$20 million, respectively.

(4) Total debt divided by total capitalization.

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

## Free Cash Flow (Non-GAAP)

Free cash flow is a key financial measure of our ability to generate additional cash from operating our business and in evaluating our financial performance. We define free cash flow as cash flow from operating activities, less capital expenditures plus the proceeds from the sale of operating assets. Free cash flow is a relevant indicator of our ability to repay maturing debt, revise our dividend policy or fund other uses of capital that we believe will enhance stockholder value. Free cash flow is considered a non-GAAP financial measure under the rules of the SEC. Free cash flow is limited and does not represent remaining cash flow available for discretionary expenditures due to the fact that the measure does not deduct payments required for debt maturities, pay-down of pension debt, and other obligations or payments made for business acquisitions. Therefore, it is important to view free cash flow in addition to, rather than as

a substitute for, our entire statement of cash flows and those measures prepared in accordance with GAAP.

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

(\$ in millions)	Three Months Ended		Six Months Ended	
	August 1, 2015	August 2, 2014	August 1, 2015	August 2, 2014
Net cash provided by/(used in) operating activities (GAAP)	\$42	\$137	\$(184)	\$(134)
Add:				
Proceeds from sale of operating assets	—	—	5	2
Less:				
Capital expenditures <sup>(1)</sup>	(95)	(61)	(141)	(141)
Free cash flow (non-GAAP)	\$(53)	\$76	\$(320)	\$(273)

(1) As of the end of the second quarters of 2015 and 2014, we had accrued capital expenditures of \$40 million and \$20 million, respectively.

Free cash flow for the three months ended August 1, 2015 decreased \$129 million to an outflow of \$53 million compared to an inflow of \$76 million in the same period last year. Free cash flow for the six months ended August 1, 2015 decreased \$47 million to an outflow of \$320 million compared to an outflow of \$273 million in the same period last year. The year-over-year decrease was driven by our investments in inventory to fund our growth initiatives.

**Operating Activities**

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

Cash flow from operating activities for the three months ended August 1, 2015 declined \$95 million to an inflow of \$42 million compared to an inflow of \$137 million for the same period in 2014. Cash flow from operating activities for the six months ended August 1, 2015 declined \$50 million to an outflow of \$184 million compared to an outflow of \$134 million for the same period in 2014. Our net loss of \$305 million for the six months ended August 1, 2015 includes significant income and expense items that do not impact operating cash flow including depreciation and amortization, the gain on the sale of assets, stock-based compensation and deferred taxes. The overall increase in cash used in operations was driven by our investments in inventory. Cash flows from operating activities for the first half of 2015 also included construction allowances from landlords of \$4 million, which funded a portion of our capital expenditures in investing activities.

Merchandise inventory increased \$157 million to \$3,005 million, or 5.5%, as of the end of the second quarter of 2015 compared to \$2,848 million as of the end of the second quarter last year and increased \$353 million from year-end. Merchandise accounts payable increased \$138 million as of the end of the second quarter of 2015 compared to the corresponding prior year period and increased \$125 million from year-end.

**Investing Activities**

Investing activities for the three months ended August 1, 2015 was a cash outflow of \$88 million compared to an outflow of \$42 million for the same three month period of 2014. Investing activities through the first six months of 2015 was a cash outflow of \$123 million compared to an outflow of \$105 million for the same six month period of 2014. The increase in the cash outflow from investing activities was primarily a result of lower proceeds from the sale of non-operating assets.

Cash capital expenditures were \$141 million for both the six months ended August 1, 2015 and the six months ended August 2, 2014. In addition, as of the end of the second quarters of 2015 and 2014, we had \$40 million and \$20 million, respectively, of accrued capital expenditures. Through the first six months of 2015, capital expenditures related primarily to the opening of 23 Sephora inside JCPenney stores, investments in information technology in both our home office and stores and investments in our store environment. We received construction allowances from landlords of \$4 million in the first half of 2015, which are classified as operating activities, to fund a portion of the capital expenditures related to store leasehold improvements. These funds have been recorded as deferred rent credits

in the Consolidated Balance Sheets and are amortized as an offset to rent expense.

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For the six months ended August 2, 2014 capital expenditures related primarily to the opening of 43 Sephora inside JCPenney stores, the preparation for the opening of a new department store in the third quarter of 2014 and the investment in information technology in both our home office and stores.

Full year 2015 capital expenditures are expected to be approximately \$250 to \$300 million. Capital expenditures for the remainder of 2015 include accrued expenditures of \$40 million at the end of the second quarter.

Financing Activities

Financing activities for the six months ended August 1, 2015 resulted in an outflow of \$38 million compared to an outflow of \$240 million for the same period last year.

During the first six months of 2015, we repaid \$23 million on our capital leases and note payable, \$11 million on our \$2.25 billion five-year senior secured term loan that was entered into in May 2013 (2013 Term Loan) and \$2 million on our \$500 million term loan entered into in June 2014 (2014 Term Loan).

Cash Flow Outlook

For the remainder of 2015, we believe that our existing liquidity will be adequate to fund our capital expenditures and working capital needs; however, in accordance with our long-term financing strategy, we may access the capital markets opportunistically. We believe that our current financial position will provide us the financial flexibility to support our growth initiatives.

2014 Credit Facility

On June 20, 2014, J. C. Penney Company, Inc., JCP and J. C. Penney Purchasing Corporation entered into a \$2,350 million asset-based senior credit facility (2014 Credit Facility), comprised of a \$1,850 million revolving line of credit (Revolving Facility) and the \$500 million 2014 Term Loan. As of the end of the second quarter of 2015, we had \$495 million outstanding on the 2014 Term Loan and no borrowings outstanding under the Revolving Facility. In addition, as of the end of the second quarter of 2015, based on our borrowing base, we had \$1,635 million available for borrowing, of which \$310 million was reserved for outstanding standby and import letters of credit, none of which have been drawn on, leaving \$1,325 million for future borrowings. The applicable rate for standby and import letters of credit was 2.50% and 1.25%, respectively, while the commitment fee was 0.375% for the unused portion of the Revolving Facility.

Credit Ratings

Our credit ratings and outlook as of September 4, 2015 were as follows:

	Corporate	Outlook
Fitch Ratings	B-	Stable
Moody's Investors Service, Inc.	Caa1	Positive
Standard & Poor's Ratings Services	CCC+	Positive

Credit rating agencies periodically review our capital structure and the quality and stability of our earnings. Rating agencies consider, among other things, changes in operating performance, comparable store sales, the economic environment, conditions in the retail industry, financial leverage and changes in our business strategy in their rating decisions. Downgrades to our long-term credit ratings could result in reduced access to the credit and capital markets and higher interest costs on future financings. On June 30, 2015, Moody's Investors Service, Inc. raised our outlook to positive from stable and on August 27, 2015, Fitch Ratings raised our rating to B- from CCC.

Contractual Obligations and Commitments

Aggregate information about our obligations and commitments to make future payments under contractual or contingent arrangements was disclosed in the 2014 Form 10-K. Our unrecorded contractual obligations related to merchandise have increased approximately 7% since year end primarily due to the seasonality of our business and updates to our supplier base in the ordinary course of business.

Inflation

Our business is affected by general economic conditions, including changes in prices for labor and commodities such as petroleum, energy and cotton. In the spring of 2015, we benefited modestly from the reduction in the price of cotton

and improved freight rates due to lower fuel costs. These were offset by freight premiums to ship goods to East and Gulf Coast

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ports and increased air shipments due to disruptions in the operations of West Coast ports. For fall 2015, we expect a continuation of the benefit from lower fuel costs and stable cotton pricing.

### Critical Accounting Policies

Management's discussion and analysis of our financial condition and results of operations is based upon our unaudited Interim Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and use judgments that affect reported amounts of assets, liabilities, revenues and expenses and related disclosures of contingent assets and liabilities. We base our estimates on historical experience and on other assumptions that are believed to be reasonable under the circumstances. On an ongoing basis, we evaluate estimates used, including those related to inventory valuation under the retail method, valuation of long-lived assets, estimation of reserves and valuation allowances specifically related to closed stores, insurance, income taxes, litigation and environmental contingencies and pension accounting. While actual results could differ from these estimates, we do not expect the differences, if any, to have a material effect on the unaudited Interim Consolidated Financial Statements. There were no changes to our critical accounting policies during the six months ended August 1, 2015. For a further discussion of the judgments we make in applying our accounting policies, see Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, in our 2014 Form 10-K.

### Recently Issued Accounting Pronouncements

Recently issued accounting pronouncements are discussed in Note 2 to the unaudited Interim Consolidated Financial Statements.

### Seasonality

While a significant portion of our sales, profit and operating cash flows have historically been realized in the fiscal fourth quarter, our quarterly results of operations may fluctuate significantly as a result of many factors, including seasonal fluctuations in customer demand, product offerings, inventory levels and our promotional activity. The results of operations and cash flows for the six months ended August 1, 2015 are not necessarily indicative of the results for future quarters or the entire year.

### Cautionary Statement Regarding Forward-Looking Statements

This report contains forward-looking statements made within the meaning of the Private Securities Litigation Reform Act of 1995, which reflect our current view of future events and financial performance. Words such as "expect" and similar expressions identify forward-looking statements, which include, but are not limited to, statements regarding sales, gross margin, selling, general and administrative expenses, cash flows and liquidity. Forward-looking statements are based only on the Company's current assumptions and views of future events and financial performance. They are subject to known and unknown risks and uncertainties, many of which are outside of the Company's control, that may cause the Company's actual results to be materially different from planned or expected results. Those risks and uncertainties include, but are not limited to, general economic conditions, including inflation, recession, unemployment levels, consumer confidence and spending patterns, credit availability and debt levels, changes in store traffic trends, the cost of goods, more stringent or costly payment terms and/or the decision by a significant number of vendors not to sell us merchandise on a timely basis or at all, trade restrictions, the ability to monetize non-core assets on acceptable terms, the ability to implement our strategic plan, customer acceptance of our strategies, our ability to attract, motivate and retain key executives and other associates, the impact of cost reduction initiatives, our ability to generate or maintain liquidity, implementation of new systems and platforms, changes in tariff, freight and shipping rates, changes in the cost of fuel and other energy and transportation costs, disruptions and congestion at ports through which we import goods, increases in wage and benefit costs, competition and retail industry consolidations, interest rate fluctuations, dollar and other currency valuations, the impact of weather conditions, risks associated with war, an act of terrorism or pandemic, the ability of the federal government to fund and conduct its operations, a systems failure and/or security breach that results in the theft, transfer or unauthorized disclosure of customer, employee or Company information, legal and regulatory proceedings and the Company's ability to access the debt or equity markets on favorable terms or at all. There can be no assurances that the Company will achieve expected results, and actual results may be materially less than expectations. While we believe that our



assumptions are reasonable, we caution that it is impossible to predict the degree to which any such factors could cause actual results to differ materially from predicted results.

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For additional discussion on risks and uncertainties, see Part II, Item 1A, Risk Factors, below. We intend the forward-looking statements in this Quarterly Report on Form 10-Q to speak only as of the date of this report and do not undertake to update or revise these projections as more information becomes available.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risks in the normal course of business due to changes in interest rates. Our market risks related to interest rates at August 1, 2015 are similar to those disclosed in the 2014 Form 10-K. During the second quarter of 2015, we entered into interest rate swap agreements with notional amounts totaling \$1,250 million to fix a portion of our variable LIBOR-based interest payments. The interest rate swap agreements, which were effective May 7, 2015, have a weighted-average fixed rate of 2.04%, mature on May 7, 2020 and have been designated as cash flow hedges.

Item 4. Controls and Procedures

Based on their evaluation of our disclosure controls and procedures (as defined in Rules 13a-15 and 15d-15 under the Securities Exchange Act of 1934 (the Exchange Act)) as of the end of the period covered by this Quarterly Report on Form 10-Q, our principal executive officer and principal financial officer concluded our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and is accumulated and communicated to management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. There were no changes in our internal control over financial reporting during the second quarter ended August 1, 2015, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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Part II. Other Information

Item 1. Legal Proceedings

The matters under the caption "Litigation" in Note 14 of the Notes to Unaudited Interim Consolidated Financial Statements in Part I, Item 1 of this Form 10-Q are incorporated herein by reference.

Item 1A. Risk Factors

The risk factors listed below update and supersede the risk factors associated with our business previously disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended January 31, 2015.

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

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

- customer response to our marketing and merchandise strategies;
- our ability to achieve profitable sales and to make adjustments in response to changing conditions;
- our ability to respond to competitive pressures in our industry;
- our ability to effectively manage inventory;
- the success of our omnichannel strategy;
- our ability to benefit from capital improvements made to our store environment;
- our ability to respond to any unanticipated changes in expected cash flows, liquidity and cash needs, including our ability to obtain any additional financing or other liquidity enhancing transactions, if and when needed;
- our ability to achieve positive cash flow;
- our ability to access adequate and uninterrupted supply of merchandise from suppliers at expected levels and on acceptable terms; and
- general economic conditions.

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

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

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

environment and updating their technology. Competition is characterized by many factors, including merchandise assortment, advertising, price, quality, service, location, reputation, credit availability and customer loyalty. We have experienced, and anticipate that we will continue to experience for at least the foreseeable future, significant competition from our competitors. The performance of competitors as well as changes in their pricing and promotional policies, marketing activities, customer loyalty programs, new store openings, store renovations, launches of Internet websites or mobile platforms, brand launches and other merchandise and operational strategies could cause us to have lower sales, lower gross margin and/or higher operating expenses such as marketing costs and other selling, general and administrative expenses, which in turn could have an adverse impact on our profitability.

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

Our sales and operating results depend in part on our ability to predict and respond to changes in fashion trends and customer preferences in a timely manner by consistently offering stylish, quality merchandise assortments at competitive prices. We continuously assess emerging styles and trends and focus on developing a merchandise assortment to meet customer preferences. There is no assurance that these efforts will be successful or that we will be able to satisfy constantly changing customer demands. To the extent our decisions regarding our merchandise differ from our customers' preferences, we may be faced with reduced sales and excess inventories for some products and/or missed opportunities for others. Any sustained failure to identify and respond to emerging trends in lifestyle and customer preferences and buying trends could have an adverse impact on our business. In addition, merchandise misjudgments may adversely impact the perception or reputation of our Company, which could result in declines in customer loyalty and vendor relationship issues, and ultimately have a material adverse effect on our business, financial condition and results of operations.

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

Maintaining and continually enhancing the value of our Company and our private brand merchandise is important to the success of our business. The value of our private brands is based in large part on the degree to which customers perceive and react to them. The value of our private brands could diminish significantly due to a number of factors, including customer perception that we have acted in an irresponsible manner in sourcing our private brand merchandise, adverse publicity about our private brand merchandise, our failure to maintain the quality of our private brand products, or the failure of our private brand merchandise to deliver consistently good value to the customer. The growing use of social and digital media by customers, us, and third parties increases the speed and extent that information or misinformation and opinions can be shared. Negative posts or comments about us, our private brands, or any of our merchandise on social or digital media could seriously damage our reputation. If we do not maintain the favorable perception of our Company and our private brand merchandise, our business results could be negatively impacted.

Our ability to increase sales and store productivity is largely dependent upon our ability to increase customer traffic and conversion.

Customer traffic depends upon our ability to successfully market compelling merchandise assortments as well as present an appealing shopping environment and experience to customers. Our strategies focus on increasing customer traffic and improving conversion in our stores and online; however, there can be no assurance that our efforts will be successful or will result in increased sales. In addition, external events outside of our control, including pandemics, terrorist threats, domestic conflicts and civil unrest, may influence customers' decisions to visit malls or might otherwise cause customers to avoid public places. There is no assurance that we will be able to reverse any decline in traffic or that increases in Internet sales will offset any decline in store traffic. We may need to respond to any declines in customer traffic or conversion rates by increasing markdowns or promotions to attract customers, which could adversely impact our gross margins, operating results and cash flows from operating activities.

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

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

maintaining an appropriate mix and level of inventory in stores and online, adjusting our merchandise mix between our private and exclusive brands and national brands, appropriately changing the allocation of floor space of stores among product categories to respond to customer demand and effectively managing pricing and markdowns. If we overestimate customer demand for our merchandise, we will likely need to record inventory markdowns and sell the excess inventory at clearance prices which would negatively impact our gross margins and operating results. If we underestimate customer demand for our merchandise, we may experience inventory shortages which may result in missed sales opportunities and have a negative impact on customer loyalty.

We must protect against security breaches or other unauthorized disclosures of confidential data about our customers as well as about our employees and other third parties.

As part of our normal operations, we and third-party service providers with whom we contract receive and maintain information about our customers (including credit/debit card information), our employees and other third parties.

Confidential

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data must at all times be protected against security breaches or other unauthorized disclosure. We have, and require our third-party service providers to have, administrative, physical and technical safeguards and procedures in place to protect the security, confidentiality and integrity of such information and to protect such information against unauthorized access, disclosure or acquisition. Despite our safeguards and security processes and procedures, there is no assurance that all of our systems and processes, or those of our third-party service providers, are free from vulnerability to security breaches or inadvertent data disclosure or acquisition by third parties or us. Further, because the methods used to obtain unauthorized access change frequently and may not be immediately detected, we may be unable to anticipate these methods or promptly implement safeguards. Any failure to protect confidential data about our business or our customers, employees or other third parties could materially damage our brand and reputation as well as result in significant expenses and disruptions to our operations, and loss of customer confidence, any of which could have a material adverse impact on our business and results of operations. We could also be subject to government enforcement actions and private litigation as a result of any such failure.

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

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

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

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

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

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

We have implemented several products from third party vendors to simplify our processes and reduce our use of customized existing legacy systems and expect to place additional applications into operation in the future. Implementing new systems carries substantial risk, including implementation delays, cost overruns, disruption of operations, potential loss of data or information, lower customer satisfaction resulting in lost customers or sales, inability to deliver merchandise to our stores or our customers, the potential inability to meet reporting requirements and unintentional security vulnerabilities. There can be no



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assurances that we will successfully launch the new systems as planned, that the new systems will perform as expected or that the new systems will be implemented without disruptions to our operations, any of which may cause critical information upon which we rely to be delayed, unreliable, corrupted, insufficient or inaccessible.

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

Our vendors are also highly dependent on the use of information technology systems. Major disruptions in their information technology systems could result in their inability to communicate with us or otherwise to process our transactions or information, their inability to perform required functions, or in the loss or corruption of our information, any and all of which could result in disruptions to our operations. Our vendors are responsible for having safeguards and procedures in place to protect the confidentiality, integrity and security of our information, and to protect our information and systems against unauthorized access, disclosure or acquisition. Any failure in their systems to operate or in their ability to protect our information or systems could have a material adverse impact on our business and results of operations.

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

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

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

Our merchandise is sourced from a wide variety of suppliers, and our business depends on being able to find qualified suppliers and access products in a timely and efficient manner. Inflationary pressures on commodity prices and other input costs could increase our cost of goods, and an inability to pass such cost increases on to our customers or a change in our merchandise mix as a result of such cost increases could have an adverse impact on our profitability. Additionally, the impact of economic conditions on our suppliers cannot be predicted and our suppliers may be unable to access financing or become insolvent and thus become unable to supply us with products.

Our arrangements with our suppliers and vendors may be impacted by our financial results or financial position.

Substantially all of our merchandise suppliers and vendors sell to us on open account purchase terms. There is a risk that our key suppliers and vendors could respond to any actual or apparent decrease in or any concern with our financial results or liquidity by requiring or conditioning their sale of merchandise to us on more stringent or more costly payment terms, such as by requiring standby letters of credit, earlier or advance payment of invoices, payment upon delivery or other assurances or credit support or by choosing not to sell merchandise to us on a timely basis or at all. Our arrangements with our suppliers and vendors may also be impacted by media reports regarding our financial position. Our need for additional liquidity could significantly increase and our supply of merchandise could be materially disrupted if a significant portion of our key suppliers and vendors took one or more of the actions described above, which could have a material adverse effect on our sales, customer satisfaction, cash flows, liquidity and

financial position.

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

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

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

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

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

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

In June 2014, we entered into a new \$2.35 billion senior secured asset-based revolving credit and term loan facility. Our borrowing capacity under our revolving credit facility varies according to the Company's inventory levels, accounts receivable and credit card receivables, net of certain reserves. In the event of any material decrease in the amount of or appraised value of these assets, our borrowing capacity would similarly decrease, which could adversely impact our business and liquidity.

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

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

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

As of August 1, 2015, we have \$5.298 billion in total indebtedness and we are highly leveraged. Our level of indebtedness may limit our ability to obtain additional financing, if needed, to fund additional projects, working capital requirements, capital expenditures, debt service, and other general corporate or other obligations, as well as increase the risks to our business associated with general adverse economic and industry conditions. Our level of

indebtedness may also place us at a competitive disadvantage to our competitors that are not as highly leveraged.

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

In addition, we are required to make prepayments of the real estate term loan credit facility with the proceeds of certain asset sales, insurance proceeds and excess cash flow, and prepayments of the asset-based revolving credit and term loan facility with excess cash flow, which will reduce the cash available for other purposes, including capital expenditures for store improvements, and could impact our ability to reinvest in other areas of our business.

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

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

Our ability to obtain any additional financing or any refinancing of our debt, if needed at any time, depends upon many factors, including our existing level of indebtedness and restrictions in our debt facilities, historical business performance, financial projections, prospects and creditworthiness and external economic conditions and general liquidity in the credit and capital markets. Any additional debt, equity or equity-linked financing may require modification of our existing debt agreements, which there is no assurance would be obtainable. Any additional financing or refinancing could also be extended only at higher costs and require us to satisfy more restrictive covenants, which could further limit or restrict our business and results of operations, or be dilutive to our stockholders.

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

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

- counterparty credit risk;

- the risk that the duration or amount of the hedge may not match the duration or amount of the related liability;

- the hedging transactions may be adjusted from time to time in accordance with accounting rules to reflect changes in fair values, downward adjustments or “mark-to-market losses,” which would affect our stockholders’ equity; and

- the risk that we may not be able to meet the terms and conditions of the hedging instruments, in which case we may be required to settle the instruments prior to maturity with cash payments that could significantly affect our liquidity.

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

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

Long-lived assets, primarily property and equipment, are reviewed at the store level at least annually for impairment, or whenever changes in circumstances indicate that a full recovery of net asset values through future cash flows is in question. We also assess the recoverability of indefinite-lived intangible assets at least annually or whenever events or changes in

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circumstances indicate that the carrying amount may not be fully recoverable. Our impairment review requires us to make estimates and projections regarding, but not limited to, sales, operating profit and future cash flows. If our operating performance reflects a sustained decline, we may be exposed to significant asset impairment charges in future periods, which could be material to our results of operations.

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

Synchrony Financial (“Synchrony”) owns and services our private label credit card and co-branded MasterCard® programs. Our agreement with Synchrony provides for certain payments to be made by Synchrony to the Company, including a share of revenues from the performance of the credit card portfolios. The income and cash flow that the Company receives from Synchrony is dependent upon a number of factors including the level of sales on private label and co-branded accounts, the percentage of sales on private label and co-branded accounts relative to the Company’s total sales, the level of balances carried on the accounts, payment rates on the accounts, finance charge rates and other fees on the accounts, the level of credit losses for the accounts, Synchrony’s ability to extend credit to our customers as well as the cost of customer rewards programs. All of these factors can vary based on changes in federal and state credit card, banking and consumer protection laws, which could also materially limit the availability of credit to consumers or increase the cost of credit to our cardholders. The factors affecting the income and cash flow that the Company receives from Synchrony can also vary based on a variety of economic, legal, social and other factors that we cannot control. If the income or cash flow that the Company receives from our consumer credit card program agreement with Synchrony decreases, our operating results and cash flows could be adversely affected.

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

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

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

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

- potential disruptions in manufacturing, logistics and supply;
- changes in duties, tariffs, quotas and voluntary export restrictions on imported merchandise;
- strikes and other events affecting delivery;
- consumer perceptions of the safety of imported merchandise;
- product compliance with laws and regulations of the destination country;

product liability claims from customers or penalties from government agencies relating to products that are recalled, defective or otherwise noncompliant or alleged to be harmful;

concerns about human rights, working conditions and other labor rights and conditions and environmental impact in foreign countries where merchandise is produced and raw materials or components are sourced, and changing labor, environmental and other laws in these countries;

local business practice and political issues that may result in adverse publicity or threatened or actual adverse consumer actions, including boycotts;



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compliance with laws and regulations concerning ethical business practices, such as the U.S. Foreign Corrupt Practices Act; and

economic, political or other problems in countries from or through which merchandise is imported.

Political or financial instability, trade restrictions, tariffs, currency exchange rates, labor conditions, congestion and labor issues at major ports, transport capacity and costs, systems issues, problems in third party distribution and warehousing and other interruptions of the supply chain, compliance with U.S. and foreign laws and regulations and other factors relating to international trade and imported merchandise beyond our control could affect the availability and the price of our inventory. These risks and other factors relating to foreign trade could subject us to liability or hinder our ability to access suitable merchandise on acceptable terms, which could adversely impact our results of operations.

Disruptions and congestion at ports through which we import merchandise may increase our costs and/or delay the receipt of goods in our stores, which could adversely impact our profitability, financial position and cash flows.

We ship the majority of our private brand merchandise by ocean to ports in the United States. Our national brand suppliers also ship merchandise by ocean. Disruptions in the operations of ports through which we import our merchandise, including but not limited to labor disputes involving work slowdowns, lockouts or strikes, could require us and/or our vendors to ship merchandise by air freight or to alternative ports in the United States. Shipping by air is significantly more expensive than shipping by ocean which could adversely affect our profitability. Similarly, shipping to alternative ports in the United States could result in increased lead times and transportation costs. Disruptions at ports through which we import our goods could also result in unanticipated inventory shortages, which could adversely impact our reputation and our results of operations.

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

Our results of operations are sensitive to changes in overall economic and political conditions that impact consumer spending, including discretionary spending. Many economic factors outside of our control, including the housing market, interest rates, recession, inflation and deflation, energy costs and availability, consumer credit availability and terms, consumer debt levels, tax rates and policy, and unemployment trends influence consumer confidence and spending. The domestic and international political situation and actions also affect consumer confidence and spending. In particular, the moderate income consumer, which is our core customer, has been under economic pressure for the past several years, and may have less disposable income for items such as apparel and home goods. Additional events that could impact our performance include pandemics, terrorist threats and activities, worldwide military and domestic disturbances and conflicts, political instability and civil unrest. Declines in the level of consumer spending could adversely affect our growth and profitability.

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

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

Our profitability may be impacted by weather conditions.

Our merchandise assortments reflect assumptions regarding expected weather patterns and our profitability depends on our ability to timely deliver seasonally appropriate inventory. Unseasonable or unexpected weather conditions such as warm temperatures during the winter season or prolonged or extreme periods of warm or cold temperatures could render a portion of our inventory incompatible with consumer needs. Extreme weather or natural disasters could also severely hinder our ability to timely deliver seasonally appropriate merchandise, preclude customers from traveling to our stores, delay capital improvements or cause us to close stores. A reduction in the demand for or supply of our seasonal merchandise could have an adverse effect on our inventory levels, gross margins and results of operations.

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

Our business is subject to a wide array of laws and regulations. The current political environment, financial reform legislation, the current high level of government intervention and activism, regulatory reform and stockholder activism may result in substantial new regulations and disclosure obligations and/or changes in the interpretation of existing laws and regulations, which may lead to additional compliance costs as well as the diversion of our management's time and attention from strategic

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initiatives. If we fail to comply with applicable laws and regulations we could be subject to legal risk, including government enforcement action and class action civil litigation that could disrupt our operations and increase our costs of doing business. Changes in the regulatory environment regarding topics such as privacy and information security, product safety or environmental protection, including regulations in response to concerns regarding climate change, collective bargaining activities, minimum wage, wage and hour, and health care mandates, among others, could also cause our compliance costs to increase and adversely affect our business and results of operations.

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

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

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

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

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

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

Securities class action litigation has often been instituted against companies following periods of volatility in the overall market and in the market price of a company's securities. The Company and certain of our current and former

members of the Board of Directors and executives are defendants in a consolidated class action lawsuit and two related shareholder derivative actions that were filed following our announcement of an issuance of common stock on September 26, 2013. An additional class action complaint regarding the same announcement was also recently filed. Such litigation could result in substantial costs, divert our management's attention and resources and have an adverse effect on our business, results of operations and financial condition.

The Company's ability to use net operating loss carryforwards to offset future taxable income for U.S. federal income tax purposes may be limited.

The Company has a federal net operating loss (NOL) of \$2.6 billion as of January 31, 2015. These NOL carryforwards (expiring in 2032 through 2034) are available to offset future taxable income. The Company may recognize additional NOLs in the future.

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Section 382 of the Internal Revenue Code of 1986, as amended (the Code) imposes an annual limitation on the amount of taxable income that may be offset by a corporation's NOLs if the corporation experiences an "ownership change" as defined in Section 382 of the Code. An ownership change occurs when the Company's "five-percent shareholders" (as defined in Section 382 of the Code) collectively increase their ownership in the Company by more than 50 percentage points (by value) over a rolling three-year period. Additionally, various states have similar limitations on the use of state NOLs following an ownership change.

If an ownership change occurs, the amount of the taxable income for any post-change year that may be offset by a pre-change loss is subject to an annual limitation that is cumulative to the extent it is not all utilized in a year. This limitation is derived by multiplying the fair market value of the Company stock as of the ownership change by the applicable federal long-term tax-exempt rate, which was 2.8% at January 31, 2015. To the extent that a company has a net unrealized built-in gain at the time of an ownership change, which is realized or deemed recognized during the five-year period following the ownership change, there is an increase in the annual limitation for each of the first five-years that is cumulative to the extent it is not all utilized in a year.

The Company has an ongoing study of the rolling three-year testing periods. Based upon the elections the Company has made and the information that has been filed with the Securities and Exchange Commission through August 1, 2015, the Company has not had a Section 382 ownership change through August 1, 2015.

If an ownership change should occur in the future, the Company's ability to use the NOL to offset future taxable income will be subject to an annual limitation and will depend on the amount of taxable income generated by the Company in future periods. There is no assurance that the Company will be able to fully utilize the NOL and the Company could be required to record an additional valuation allowance related to the amount of the NOL that may not be realized, which could impact the Company's result of operations.

We believe that these NOL carryforwards are a valuable asset for us. Consequently, we have a stockholder rights plan in place, which was approved by the Company's stockholders, to protect our NOLs during the effective period of the rights plan. Although the rights plan is intended to reduce the likelihood of an "ownership change" that could adversely affect us, there is no assurance that the restrictions on transferability in the rights plan will prevent all transfers that could result in such an "ownership change".

The rights plan could make it more difficult for a third party to acquire, or could discourage a third party from acquiring, our Company or a large block of our common stock. A third party that acquires 4.9% or more of our common stock could suffer substantial dilution of its ownership interest under the terms of the rights plan through the issuance of common stock or common stock equivalents to all stockholders other than the acquiring person.

The foregoing provisions may adversely affect the marketability of our common stock by discouraging potential investors from acquiring our stock. In addition, these provisions could delay or frustrate the removal of incumbent directors and could make more difficult a merger, tender offer or proxy contest involving us, or impede an attempt to acquire a significant or controlling interest in us, even if such events might be beneficial to us and our stockholders.

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## Item 6. Exhibits

## Exhibit Index

Exhibit No.	Exhibit Description	Incorporated by Reference			Filing Date	Filed (†) Herewith (as indicated)
		Form	SEC File No.	Exhibit		
3.1	Restated Certificate of Incorporation of J. C. Penney Company, Inc., as amended to May 20, 2011	10-Q	001-15274	3.1	6/8/2011	
3.2	J. C. Penney Company, Inc. Bylaws, as amended to July 23, 2013	8-K	001-15274	3.1	7/26/2013	
3.3	Certificate of Designation, Preferences and Rights of Series C Junior Participating Preferred Stock Sixth Amendment dated as of June 26, 2015 to Consumer Credit Card Program Agreement by and between J. C. Penney Corporation, Inc. and Synchrony Bank, as amended and restated as of November 5, 2009, as amended by the First Amendment thereto dated as of October 29, 2010, the Second Amendment thereto dated as of January 30, 2013, the Third Amendment thereto dated October 11, 2013, the Fourth Amendment thereto dated February 25, 2014, and the Fifth Amendment thereto dated April 6, 2015	8-K	001-15274	3.1	8/22/2013	
10.1	Letter Agreement dated May 15, 2015 between J. C. Penney Company, Inc. and Andrew S. Drexler					†
10.2	Form of Termination Pay Agreement	8-K	001-15274	10.1	5/21/2015	
10.3	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	8-K	001-15274	10.2	5/21/2015	
31.1	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					†
31.2	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					†
32.1	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					†
32.2	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					†
101.INS	XBRL Instance Document					†
101.SCH	XBRL Taxonomy Extension Schema Document					†
101.CAL						†

	XBRL Taxonomy Extension Calculation Linkbase Document	
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	†
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	†
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	†

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

J. C. PENNEY COMPANY, INC.

By /s/ Andrew S. Drexler

Andrew S. Drexler

Senior Vice President, Chief Accounting Officer and  
Controller

(Principal Accounting Officer)

Date: September 8, 2015

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