

J C PENNEY CO INC  
Form 10-Q  
December 08, 2010

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended October 30, 2010

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 1-15274

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

Delaware  
(State or other jurisdiction of incorporation or  
organization)

26-0037077  
(I.R.S. Employer Identification No.)

6501 Legacy Drive, Plano, Texas  
(Address of principal executive offices)

75024 - 3698  
(Zip Code)

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

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company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting  
company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

236,596,234 shares of Common Stock of 50 cents par value, as of December 3, 2010

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J. C. PENNEY COMPANY, INC.

FORM 10-Q

For the Quarterly Period Ended October 30, 2010

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## Part I. Financial Information

## Item 1. Unaudited Financial Statements

## J. C. PENNEY COMPANY, INC.

CONSOLIDATED STATEMENTS of OPERATIONS  
(Unaudited)

| (\$ in millions, except per share data)    | Three Months Ended |                  | Nine Months Ended |                  |
|--|--------------------|------------------|-------------------|------------------|
|  | Oct. 30,<br>2010   | Oct. 31,<br>2009 | Oct. 30,<br>2010  | Oct. 31,<br>2009 |
| Total net sales                            | \$ 4,189           | \$ 4,179         | \$ 12,056         | \$ 12,006        |
| Cost of goods sold                         | 2,554              | 2,483            | 7,239             | 7,216            |
| Gross margin                               | 1,635              | 1,696            | 4,817             | 4,790            |
| Operating expenses:                        |                    |                  |                   |                  |
| Selling, general and administrative (SG&A) | 1,324              | 1,376            | 3,886             | 3,873            |
| Pension                                    | 64                 | 83               | 191               | 256              |
| Depreciation and amortization              | 128                | 123              | 379               | 364              |
| Pre-opening                                | 2                  | 4                | 7                 | 27               |
| Real estate and other, net                 | (7)                | 3                | (20)              | (10)             |
| Total operating expenses                   | 1,511              | 1,589            | 4,443             | 4,510            |
| Operating income                           | 124                | 107              | 374               | 280              |
| Net interest expense                       | 57                 | 64               | 173               | 195              |
| Bond premiums and unamortized costs        | -                  | -                | 20                | -                |
| Income before income taxes                 | 67                 | 43               | 181               | 85               |
| Income tax expense                         | 23                 | 16               | 63                | 34               |
| Net income                                 | \$ 44              | \$ 27            | \$ 118            | \$ 51            |
| Earnings per share – basic                 | \$ 0.19            | \$ 0.11          | \$ 0.50           | \$ 0.22          |
| Earnings per share – diluted               | \$ 0.19            | \$ 0.11          | \$ 0.50           | \$ 0.22          |

The accompanying notes are an integral part of these unaudited Interim Consolidated Financial Statements.

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## J. C. PENNEY COMPANY, INC.

## CONSOLIDATED BALANCE SHEETS

| (\$ in millions, except per share data)  | Oct. 30,<br>2010<br>(Unaudited) | Oct. 31,<br>2009<br>(Unaudited) | Jan. 30,<br>2010 |
|--|---------------------------------|---------------------------------|------------------|
| <b>Assets</b>  |                                 |                                 |                  |
| <b>Current assets</b>  |                                 |                                 |                  |
| Cash in banks and in transit   | \$ 199                          | \$ 217                          | \$ 163           |
| Cash short-term investments  | 1,467                           | 1,912                           | 2,848            |
| Cash and cash equivalents  | 1,666                           | 2,129                           | 3,011            |
| Merchandise inventory  | 4,267                           | 4,018                           | 3,024            |
| Income taxes receivable  | 464                             | 523                             | 395              |
| Prepaid expenses and other   | 222                             | 250                             | 222              |
| <b>Total current assets</b>  | <b>6,619</b>                    | <b>6,920</b>                    | <b>6,652</b>     |
| Property and equipment (net of accumulated depreciation of \$2,911, \$2,707 and \$2,701) | 5,285                           | 5,319                           | 5,357            |
| Prepaid pension  | 391                             | 25                              | -                |
| Other assets   | 657                             | 534                             | 572              |
| <b>Total Assets</b>  | <b>\$ 12,952</b>                | <b>\$ 12,798</b>                | <b>\$ 12,581</b> |
| <b>Liabilities and Stockholders' Equity</b>  |                                 |                                 |                  |
| <b>Current liabilities</b>   |                                 |                                 |                  |
| Merchandise accounts payable   | \$ 1,766                        | \$ 1,794                        | \$ 1,226         |
| Other accounts payable and accrued expenses  | 1,459                           | 1,486                           | 1,630            |
| Current maturities of long-term debt   | -                               | 393                             | 393              |
| <b>Total current liabilities</b>   | <b>3,225</b>                    | <b>3,673</b>                    | <b>3,249</b>     |
| Long-term debt   | 3,099                           | 2,999                           | 2,999            |
| Deferred taxes   | 994                             | 810                             | 817              |
| Other liabilities  | 693                             | 728                             | 738              |
| <b>Total Liabilities</b>   | <b>8,011</b>                    | <b>8,210</b>                    | <b>7,803</b>     |
| <b>Stockholders' Equity</b>  |                                 |                                 |                  |
| Common stock(1)  | 118                             | 118                             | 118              |
| Additional paid-in capital   | 3,908                           | 3,862                           | 3,867            |
| Reinvested earnings  | 1,999                           | 1,871                           | 2,023            |
| Accumulated other comprehensive (loss)   | (1,084)                         | (1,263)                         | (1,230)          |
| <b>Total Stockholders' Equity</b>  | <b>4,941</b>                    | <b>4,588</b>                    | <b>4,778</b>     |
| <b>Total Liabilities and Stockholders' Equity</b>  | <b>\$ 12,952</b>                | <b>\$ 12,798</b>                | <b>\$ 12,581</b> |

(1) 1,250 million shares of common stock are authorized with a par value of \$0.50 per share. The total shares issued and outstanding were 237 million as of October 30, 2010, and 236 million as of October 31, 2009 and January 30, 2010.

The accompanying notes are an integral part of these unaudited Interim Consolidated Financial Statements.



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## J. C. PENNEY COMPANY, INC.

CONSOLIDATED STATEMENTS of CASH FLOWS  
(Unaudited)

| (\$ in millions)  | Nine Months Ended |                  |
|---|-------------------|------------------|
|   | Oct. 30,<br>2010  | Oct. 31,<br>2009 |
| Cash flows from operating activities:   |                   |                  |
| Net income  | \$ 118            | \$ 51            |
| Adjustments to reconcile net income to net cash provided by operating activities: |                   |                  |
| Asset impairments and other charges   | 4                 | 19               |
| Depreciation and amortization   | 379               | 364              |
| Benefit plans expense   | 149               | 234              |
| Voluntary pension contribution  | (392)             | -                |
| Stock-based compensation  | 36                | 29               |
| Tax benefits from stock-based compensation  | 3                 | 3                |
| Deferred taxes  | 79                | 118              |
| Change in cash from:  |                   |                  |
| Inventory   | (1,243)           | (759)            |
| Prepaid expenses and other assets   | 7                 | 8                |
| Merchandise accounts payable  | 540               | 600              |
| Current income taxes payable  | (76)              | (217)            |
| Accrued expenses and other  | (122)             | 23               |
| Net cash (used in)/provided by operating activities of continuing operations      | (518)             | 473              |
| Cash flows from investing activities:   |                   |                  |
| Capital expenditures  | (380)             | (424)            |
| Proceeds from sale of assets  | 4                 | 12               |
| Net cash (used in) investing activities of continuing operations                  | (376)             | (412)            |
| Cash flows from financing activities:   |                   |                  |
| Proceeds from issuance of long-term debt  | 392               | -                |
| Payments of long-term debt, including capital leases                              | (693)             | (113)            |
| Financing costs   | (14)              | (32)             |
| Dividends paid, common  | (142)             | (136)            |
| Proceeds from stock options exercised   | 7                 | 3                |
| Excess tax benefits from stock-based compensation                                 | 1                 | -                |
| Tax withholding payments reimbursed by restricted stock                           | (2)               | (2)              |
| Net cash (used in) financing activities of continuing operations                  | (451)             | (280)            |
| Cash flows from discontinued operations:  |                   |                  |
| Operating cash flows  | -                 | (4)              |
| Investing cash flows  | -                 | -                |
| Financing cash flows  | -                 | -                |
| Total cash (paid for) discontinued operations                                     | -                 | (4)              |

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|  |          |          |
|--|----------|----------|
| Net (decrease) in cash and cash equivalents    | (1,345)  | (223)    |
| Cash and cash equivalents at beginning of year | 3,011    | 2,352    |
| Cash and cash equivalents at end of period     | \$ 1,666 | \$ 2,129 |

The accompanying notes are an integral part of these unaudited Interim Consolidated Financial Statements.

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J. C. PENNEY COMPANY, INC.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

Note 1 – Basis of Presentation and Consolidation

Basis of Presentation

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

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

These Interim Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and in accordance with the rules and regulations of the Securities and Exchange Commission. The accompanying Interim Consolidated Financial Statements are unaudited but, in our opinion, include all material adjustments necessary for a fair presentation and should be read in conjunction with the Consolidated Financial Statements and notes thereto in our Annual Report on Form 10-K for the fiscal year ended January 30, 2010 (2009 Form 10-K). We follow substantially the same accounting policies to prepare quarterly financial statements as are followed in preparing annual financial statements. A description of such significant accounting policies is included in the 2009 Form 10-K. The January 30, 2010 financial information was derived from the audited Consolidated Financial Statements, with related footnotes, included in the 2009 Form 10-K. Because of the seasonal nature of the retail business, operating results for interim periods are not necessarily indicative of the results that may be expected for the full year.

Fiscal Year

Our fiscal year ends on the Saturday nearest to January 31. As used herein, “three months ended October 30, 2010” and “three months ended October 31, 2009” refer to the 13-week periods ended on such dates. “Nine months ended October 30, 2010” and “nine months ended October 31, 2009” refer to the 39-week periods ended on such dates.

Basis of Consolidation

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

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## J. C. PENNEY COMPANY, INC.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
(Unaudited)

## Note 2 – Earnings per Share

Net income and shares used to compute basic and diluted EPS are reconciled below:

| (in millions, except per share data)              | Three Months Ended |                  | Nine Months Ended |                  |
|---|--------------------|------------------|-------------------|------------------|
|   | Oct. 30,<br>2010   | Oct. 31,<br>2009 | Oct. 30,<br>2010  | Oct. 31,<br>2009 |
| <b>Earnings:</b>                                  |                    |                  |                   |                  |
| Net income  | \$ 44              | \$ 27            | \$ 118            | \$ 51            |
| <b>Shares:</b>                                    |                    |                  |                   |                  |
| Average common shares outstanding (basic shares)  | 236                | 236              | 236               | 231              |
| Adjustment for assumed dilution:                  |                    |                  |                   |                  |
| Stock options and restricted stock awards         | 2                  | 2                | 2                 | 1                |
| Average shares assuming dilution (diluted shares) | 238                | 238              | 238               | 232              |
| <b>EPS:</b>                                       |                    |                  |                   |                  |
|   | 0.19               |                  |                   |                  |
| Basic   | \$ 0.19            | \$ 0.11          | \$ 0.50           | \$ 0.22          |
| Diluted   | \$ 0.19            | \$ 0.11          | \$ 0.50           | \$ 0.22          |

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

| (Shares in millions)                | Three Months Ended |                  | Nine Months Ended |                  |
|-------------------------------------|--------------------|------------------|-------------------|------------------|
|                                     | Oct. 30,<br>2010   | Oct. 31,<br>2009 | Oct. 30,<br>2010  | Oct. 31,<br>2009 |
| Stock options and restricted awards | 11                 | 8                | 11                | 10               |

## Note 3 – Supplemental Cash Flow Information

| (\$ in millions)     | Nine Months Ended |                  |
|----------------------|-------------------|------------------|
|                      | Oct. 30,<br>2010  | Oct. 31,<br>2009 |
| Income taxes paid    | \$ 55             | \$ 129           |
| Interest paid        | 235               | 252              |
| Interest received    | 4                 | 3                |
| Non-cash transaction | -                 | 340              |

Non-cash transaction: On May 18, 2009, we made a voluntary contribution of approximately 13.4 million newly issued shares of JCPenney common stock, valued at \$340 million, to the J. C. Penney Corporation, Inc. Pension Plan.

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J. C. PENNEY COMPANY, INC.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
(Unaudited)

Note 4 – Credit Facility

In April 2009, J. C. Penney Company, Inc., JCP and J. C. Penney Purchasing Corporation entered into a three-year, \$750 million revolving credit agreement (2009 Credit Facility) with a syndicate of lenders with JPMorgan Chase Bank, N.A., as administrative agent. The facility is secured by our inventory, which security interest can be released upon attainment of certain credit rating levels. The 2009 Credit Facility is available for general corporate purposes, including the issuance of letters of credit. Pricing under the 2009 Credit Facility is tiered based on JCP's senior unsecured long-term credit ratings issued by Moody's Investors Service, Inc. and Standard & Poor's Ratings Services. JCP's obligations under the 2009 Credit Facility are guaranteed by J. C. Penney Company, Inc.

The 2009 Credit Facility requires that we maintain certain financial covenants, which include a leverage ratio, a fixed charge coverage ratio and an asset coverage ratio (each as defined in the 2009 Credit Facility). Under the terms of the 2009 Credit Facility, non-cash charges or credits related to retirement plans are not included in the calculation of EBITDA (consolidated earnings before income taxes less depreciation and amortization), which is used in the leverage ratio and fixed charge coverage ratio.

- The leverage ratio, which is calculated as of the last day of the quarter and measured on a trailing four-quarter basis, cannot exceed 3.5 to 1 from January 31, 2010 through October 30, 2010 and 3 to 1 thereafter.
- The fixed charge coverage ratio, which is calculated as of the last day of the quarter and measured on a trailing four-quarter basis, cannot be less than 2.25 to 1 through October 30, 2010, 2.5 to 1 from October 31, 2010 through October 29, 2011; and 3 to 1 thereafter.
- The asset coverage ratio, which is calculated as of the last day of each fiscal month, cannot be less than 3 to 1.

As of October 30, 2010, we were in compliance with these requirements with a leverage ratio of 2.1 to 1, a fixed charge coverage ratio of 3.7 to 1 and an asset coverage ratio of 30 to 1. No borrowings, other than the issuance of standby and import letters of credit totaling \$144 million as of October 30, 2010, have been made under the 2009 Credit Facility.

Note 5 – Long-Term Debt

Debt Issuance

On May 24, 2010, we closed on our offering of \$400 million aggregate principal amount of 5.65% Senior Notes due 2020 and used proceeds of the offering, net of underwriting discounts, of approximately \$392 million to make a voluntary cash contribution to the J. C. Penney Corporation, Inc. Pension Plan.

Debt Reductions

On May 24, 2010, we accepted for purchase \$300 million principal amount of JCP's outstanding 6.375% Senior Notes due 2036 (2036 Notes), which were validly tendered pursuant to a cash tender offer. We paid approximately \$314 million aggregate consideration, including accrued and unpaid interest, for the accepted 2036 Notes on May 25, 2010.

On March 1, 2010 we repaid at maturity the remaining \$393 million outstanding principal amount of JCP's 8.0% Notes due 2010 (2010 Notes).

On May 12, 2009, we accepted for purchase \$104 million principal amount of JCP's outstanding 2010 Notes, which were validly tendered pursuant to a cash tender offer. We paid \$107 million aggregate consideration, including accrued and unpaid interest, for the accepted 2010 Notes on May 13, 2009. In addition, we purchased \$9 million of the 2010 Notes in the open market on July 10, 2009.

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## J. C. PENNEY COMPANY, INC.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
(Unaudited)

## Note 6 – Fair Value Disclosures

## REIT Assets Measured on a Recurring Basis

We determined the fair value of our investments in public real estate investment trusts (REITs) using quoted market prices. See Note 8 for the net unrealized gain of \$41 million in REITs recorded in accumulated other comprehensive income, a component of net equity. Our REIT assets measured at fair value on a recurring basis were as follows:

| (\$ in millions) | REIT Assets at Fair Value  |   |  |
|------------------|--|---|--|
|                  | Quoted Prices in<br>Active Markets of<br>Identical Assets<br>(Level 1) | Significant Other<br>Observable Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| October 30, 2010 | \$ 242   | \$ -  | \$ -   |
| October 31, 2009 | 165  | -   | -  |
| January 30, 2010 | 178  | -   | -  |

## Other Financial Instruments

Our financial instruments include cash and cash equivalents and long-term debt. The carrying amount of our cash and cash equivalents approximates fair value because of the short maturity of these instruments. The fair value of long-term debt is estimated by obtaining quotes from brokers or is based on current rates offered for similar debt. At October 30, 2010, long-term debt had a carrying value of \$3.1 billion and a fair value of \$3.1 billion. At January 30, 2010, long-term debt, including current maturities had a carrying value of \$3.4 billion and a fair value of \$3.3 billion.

## Note 7 – Stockholder Protection Rights Agreement

As authorized by our Company's Board of Directors, the Company entered into a Stockholder Protection Rights Agreement, dated as of October 15, 2010 (Rights Agreement), by and between the Company and Mellon Investor Services, LLC, as Rights Agent. Pursuant to the terms of the Rights Agreement, which has a one-year term, one preferred stock purchase right (a Right) was attached to each outstanding share of Common Stock of \$0.50 par value of the Company (Common Stock) held by holders of record as of the close of business on October 25, 2010. Additionally, the Company will issue one Right with each new share of Common Stock issued. The Rights will initially trade with and be inseparable from our Common Stock and will not be evidenced by separate certificates unless they become exercisable.

Each Right entitles its holder to purchase from the Company 1/100 of a share of participating preferred stock having economic and voting terms similar to the Common Stock at an exercise price of \$130 per Right, subject to adjustment in accordance with the terms of the Rights Agreement, once the Rights become exercisable. In general terms, under the Rights Agreement, the Rights become exercisable if any person or group acquires 10% or more of the Common Stock or, in the case of any person or group that owned 10% or more of the Common Stock as of October 15, 2010, upon the acquisition of any additional shares by such person or group. The Company, its subsidiaries, employee

benefit plans of the Company or any of its subsidiaries, and any entity holding Common Stock for or pursuant to the terms of any such plan, are excepted. Upon exercise of the Right in accordance with the Rights Agreement, the holder would be able to purchase a number of shares of Common Stock from the Company having an aggregate market price (as defined in the Rights Agreement) equal to twice the then-current exercise price for an amount in cash equal to the then-current exercise price. The Rights will not prevent a takeover of our Company, but may cause substantial dilution to a person that acquires 10% or more of our Common Stock.

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## J. C. PENNEY COMPANY, INC.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
(Unaudited)

## Note 8 – Stockholders' Equity

The following table shows the change in the components of stockholders' equity for the first nine months of 2010:

| (in millions)              | Number<br>of<br>Common<br>Shares | Common<br>Stock | Additional<br>Paid-in<br>Capital | Reinvested<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>(Loss)/Income | Total<br>Stockholders'<br>Equity |
|----------------------------|----------------------------------|-----------------|----------------------------------|------------------------|--|----------------------------------|
| January 30, 2010           | 236                              | \$ 118          | \$ 3,867                         | \$ 2,023               | \$ (1,230)(1)  | \$ 4,778                         |
| Net income                 | -                                | -               | -                                | 118                    | -  | 118                              |
| Other comprehensive income | -                                | -               | -                                | -                      | 146  | 146                              |
| Dividends declared, common | -                                | -               | -                                | (142)                  | -  | (142)                            |
| Stock-based compensation   | -                                | -               | 41                               | -                      | -  | 41                               |
| October 30, 2010           | 236                              | \$ 118          | \$ 3,908                         | \$ 1,999               | \$ (1,084)(2)  | \$ 4,941                         |

(1) Includes an unrealized gain in REITs of \$63 million (shown net of a \$35 million deferred tax liability) and actuarial loss and prior service cost for the pension and postretirement plans of \$1,293 million (shown net of an \$825 million deferred tax asset).

(2) Includes an unrealized gain in REITs of \$104 million (shown net of a deferred tax liability of \$58 million) and actuarial loss and prior service cost for the pension and postretirement plans of \$1,188 million (shown net of a \$757 million deferred tax asset).

## Comprehensive Income

| (\$ in millions)  | Three Months Ended |                  | Nine Months Ended |                  |
|---|--------------------|------------------|-------------------|------------------|
|   | Oct. 30,<br>2010   | Oct. 31,<br>2009 | Oct. 30,<br>2010  | Oct. 31,<br>2009 |
| Net income  | \$ 44              | \$ 27            | \$ 118            | \$ 51            |
| Other comprehensive income/(loss) – net of tax:           |                    |                  |                   |                  |
| Remeasurement of primary pension plan at May 18, 2009     | -                  | -                | -                 | (10)             |
| Amortization of net actuarial loss and prior service cost | 35                 | 39               | 105               | 121              |
| Unrealized gain in REITs                                  | 11                 | 20               | 41                | 40               |
| Total other comprehensive income                          | 46                 | 59               | 146               | 151              |
| Total comprehensive income                                | \$ 90              | \$ 86            | \$ 264            | \$ 202           |





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## J. C. PENNEY COMPANY, INC.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
(Unaudited)

## Note 9 – Stock-Based Compensation

We grant stock-based compensation awards to employees (associates) and non-employee directors under our 2009 Long-Term Incentive Plan (2009 Plan). As of October 30, 2010, there were approximately 11 million shares of stock available for future grant under the 2009 Plan.

The following table presents total stock-based compensation costs and related income tax benefits:

| Stock-Based Compensation Costs<br>(\$ in millions)  | Three Months Ended |                  | Nine Months Ended |                  |
|---|--------------------|------------------|-------------------|------------------|
|   | Oct. 30,<br>2010   | Oct. 31,<br>2009 | Oct. 30,<br>2010  | Oct. 31,<br>2009 |
| Stock awards  | \$ 3               | \$ 3             | \$ 15             | \$ 9             |
| Stock options   | 7                  | 6                | 21                | 20               |
| Total stock-based compensation cost   | \$ 10              | \$ 9             | \$ 36             | \$ 29            |
| Total related income tax benefit recognized in the<br>Consolidated Statements of Operations | \$ 2               | \$ 3             | \$ 12             | \$ 11            |

## Stock Options

On August 17, 2010, we made a grant of stock options covering approximately 25,000 shares to an associate at an option price of \$20.14, with a fair value of \$5.93.

On March 16, 2010, we made an annual grant of stock options covering approximately 2.7 million shares to associates at an option price of \$30.72, with a fair value of \$9.04 per option.

The following table summarizes stock options outstanding as of October 30, 2010, as well as activity during the nine months then ended:

(options in thousands)

|                                 | Stock<br>Options | Weighted-Average<br>Exercise Price |
|---------------------------------|------------------|------------------------------------|
| Outstanding at January 30, 2010 | 13,561           | \$ 36                              |
| Granted                         | 2,714            | 31                                 |
| Exercised                       | (390)            | 17                                 |
| Forfeited or expired            | (642)            | 39                                 |
| Outstanding at October 30, 2010 | 15,243           | 36                                 |
| Exercisable at October 30, 2010 | 8,804            | 44                                 |

As of October 30, 2010, there was \$35 million of unrecognized compensation expense, net of estimated forfeitures, for unvested stock options, which will be recognized over the remaining weighted-average vesting period of approximately one year.

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J. C. PENNEY COMPANY, INC.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
(Unaudited)

Stock Awards

On March 16, 2010, we made a grant of approximately 964,000 restricted stock unit awards to associates, representing the annual grant under the 2009 Plan. These awards consisted of approximately 574,000 time-based restricted stock units and approximately 390,000 performance-based restricted stock units. The time-based award vests one-third on each of the first three anniversaries of the grant date provided that the associate remains continuously employed with the Company during that time. The performance-based award has a target with a payout matrix ranging from 0% to 200% based on 2010 EPS (defined as per common share income from continuing operations, excluding any unusual and/or extraordinary items as determined by the Human Resources and Compensation Committee of the Board). A payment of 100% of the target award would be achieved at EPS of \$1.58. In addition to the performance requirement, this award also includes a time-based vesting requirement, which is the same as the requirement for the time-based award. Upon vesting, both the time-based award and the performance-based award will be paid out in shares of JCPenney common stock.

On May 26, 2010, we granted approximately 58,000 restricted stock units to non-employee Board members. We also granted approximately 99,000 restricted stock units during the first nine months of 2010 consisting of ad-hoc awards to associates and dividend equivalents on outstanding awards.

In addition to individual ad-hoc stock awards vested during the first nine months of 2010, approximately 111,000 of our March 2008 annual grant of time-based restricted stock unit awards vested.

The following table summarizes the non-vested stock awards as of October 30, 2010 and activity during the nine months then ended:

| (awards in thousands)           | Non-Vested<br>Stock<br>Awards | Weighted-<br>Average<br>Grant<br>Date Fair<br>Value |
|---------------------------------|-------------------------------|---|
| Outstanding at January 30, 2010 | 983                           | \$ 28   |
| Granted                         | 1,121                         | 30  |
| Vested                          | (235)                         | 45  |
| Forfeited                       | (35)                          | 33  |

|                                 |       |    |
|---------------------------------|-------|----|
| Outstanding at October 30, 2010 | 1,834 | 27 |
|---------------------------------|-------|----|

As of October 30, 2010, there was \$30 million of unrecognized compensation expense related to unearned associate stock awards which will be recognized over the remaining weighted-average vesting period of approximately one year.

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## J. C. PENNEY COMPANY, INC.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
(Unaudited)

## Note 10 – Retirement Benefit Plans

The components of net periodic benefit costs for our non-contributory qualified defined benefit pension plan (primary plan) and non-contributory supplemental pension plans for the three and nine months ended October 30, 2010 and October 31, 2009 were as follows:

## Pension Plans Net Periodic Benefit Expense

| (\$ in millions)               | Primary Plan       |                     | Pension Plans<br>Supplemental |                     | Total              |                     |
|--------------------------------|--------------------|---------------------|-------------------------------|---------------------|--------------------|---------------------|
|                                | Three Months Ended |                     | Three Months Ended            |                     | Three Months Ended |                     |
|                                | Oct. 30,<br>2010   | Oct.<br>31,<br>2009 | Oct.<br>30,<br>2010           | Oct.<br>31,<br>2009 | Oct. 30,<br>2010   | Oct.<br>31,<br>2009 |
| Service cost                   | \$ 22              | \$ 20               | \$ -                          | \$ 1                | \$ 22              | \$ 21               |
| Interest cost                  | 62                 | 63                  | 3                             | 4                   | 65                 | 67                  |
| Expected return on plan assets | (87)               | (78)                | -                             | -                   | (87)               | (78)                |
| Net amortization               | 59                 | 68                  | 5                             | 5                   | 64                 | 73                  |
| Net periodic benefit expense   | \$ 56              | \$ 73               | \$ 8                          | \$ 10               | \$ 64              | \$ 83               |

| (\$ in millions)               | Primary Plan      |                     | Pension Plans<br>Supplemental |                     | Total             |                     |
|--------------------------------|-------------------|---------------------|-------------------------------|---------------------|-------------------|---------------------|
|                                | Nine Months Ended |                     | Nine Months Ended             |                     | Nine Months Ended |                     |
|                                | Oct. 30,<br>2010  | Oct.<br>31,<br>2009 | Oct.<br>30,<br>2010           | Oct.<br>31,<br>2009 | Oct. 30,<br>2010  | Oct.<br>31,<br>2009 |
| Service cost                   | \$ 66             | \$ 59               | \$ 1                          | \$ 3                | \$ 67             | \$ 62               |
| Interest cost                  | 186               | 190                 | 10                            | 12                  | 196               | 202                 |
| Expected return on plan assets | (263)             | (225)               | -                             | -                   | (263)             | (225)               |
| Net amortization               | 177               | 203                 | 14                            | 14                  | 191               | 217                 |
| Net periodic benefit expense   | \$ 166            | \$ 227              | \$ 25                         | \$ 29               | \$ 191            | \$ 256              |

## Postretirement Health and Welfare Plan Net Periodic (Income)

| (\$ in millions) | Postretirement Health and Welfare Plan |                   |
|------------------|--|-------------------|
|                  | Three Months Ended                     | Nine Months Ended |

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|                                | Oct. 30,<br>2010 | Oct. 31,<br>2009 | Oct. 30,<br>2010 | Oct. 31,<br>2009 |
|--------------------------------|------------------|------------------|------------------|------------------|
| Service cost                   | \$ -             | \$ -             | \$ -             | \$ -             |
| Interest cost                  | -                | -                | -                | -                |
| Expected return on plan assets | -                | -                | -                | -                |
| Net amortization               | (6)              | (6)              | (18)             | (18)             |
| Net periodic (income)          | \$ (6)           | \$ (6)           | \$ (18)          | \$ (18)          |

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## J. C. PENNEY COMPANY, INC.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
(Unaudited)

## Defined Contribution Plans

Our defined contribution plans include a qualified Savings, Profit-Sharing and Stock Ownership Plan, a 401(k) plan, a non-contributory retirement account and a non-qualified contributory unfunded mirror savings plan offered to certain management associates. Total expense for our defined contribution plans for the third quarter of 2010 and 2009 was \$13 million and \$16 million, respectively, and is predominantly included in SG&A expense on the Consolidated Statements of Operations. Total expense for the first nine months of 2010 and 2009 was \$39 million and \$46 million, respectively.

## Employer Contributions

Our policy with respect to funding the primary plan is to fund at least the minimum required by the Employee Retirement Income Security Act of 1974 (ERISA) rules, as amended by the Pension Protection Act of 2006, and not more than the maximum amount deductible for tax purposes. Based on the funded status of our primary plan, we are not required to make a mandatory cash contribution to the primary plan under ERISA rules in 2010 or 2011; however, on May 24, 2010, we used net proceeds of approximately \$392 million from the issuance of \$400 million of 5.65% Senior Notes due 2020 to make a voluntary cash contribution to the primary plan.

## Note 11 – Real Estate and Other, Net

| (\$ in millions)       | Three Months Ended |                  | Nine Months Ended |                  |
|------------------------|--------------------|------------------|-------------------|------------------|
|                        | Oct. 30,<br>2010   | Oct. 31,<br>2009 | Oct. 30,<br>2010  | Oct. 31,<br>2009 |
| Real estate activities | \$ (8)             | \$ (9)           | \$ (24)           | \$ (27)          |
| Other                  | 1                  | 12               | 4                 | 17               |
| Total (income)/expense | \$ (7)             | \$ 3             | \$ (20)           | \$ (10)          |

Real estate and other consists mainly of ongoing operating income from our real estate subsidiaries whose primary investments are in REITs, as well as investments in 14 joint ventures that own regional mall properties. Real estate and other also includes net gains from the sale of facilities and equipment that are no longer used in operations, asset impairments and other non-operating charges and credits. Real estate and other income increased year-over-year as a result of the non-comparable recognition of impairments related to two stores in the third quarter of 2009.

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J. C. PENNEY COMPANY, INC.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
(Unaudited)

Note 12 – Income Taxes

The total amount for unrecognized tax benefits as of October 30, 2010 was \$157 million compared to \$165 million as of January 30, 2010. The decrease included \$14 million for settlements reached with tax authorities partially offset by an increase of \$6 million based on additional amounts related to prior period tax positions. As of the end of the third quarter of 2010, the uncertain tax position balance included \$69 million that, if recognized, would lower the effective tax rate and would be reduced upon settlement by \$24 million related to the federal tax deduction of state taxes. The remaining component was \$88 million reflecting tax positions for which the ultimate deductibility is highly certain, but for which there is uncertainty about the timing. Due to deferred tax accounting, other than any interest or penalties incurred, the disallowance of the shorter deductibility period would not impact the effective tax rate, but would accelerate payment to the taxing authority.

Over the next 12 months, it is reasonably possible that the amount of unrecognized tax benefits could be reduced by approximately \$53 million (\$2 million of which would impact the effective tax rate) if our tax position is sustained upon audit, the controlling statute of limitations expires or we agree to a disallowance.

We recognize accrued interest and penalties related to unrecognized tax benefits in income tax expense. Our accrued interest was \$3 million as of October 30, 2010 and \$2 million as of January 30, 2010. We did not have any such penalties accrued as of either date.

Note 13 – Litigation, Other Contingencies and Guarantees

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

As of October 30, 2010, we estimated our total potential environmental liabilities to range from \$51 million to \$62 million and recorded our best estimate of \$54 million in other liabilities in the Consolidated Balance Sheet as of that date. This estimate covered potential liabilities primarily related to underground storage tanks, remediation of environmental conditions involving our former Eckerd drugstore locations and asbestos removal in connection with approved plans to renovate or dispose of our facilities. We continue to assess required remediation and the adequacy of environmental reserves as new information becomes available and known conditions are further delineated. If we were to incur losses at the upper end of the estimated range, we do not believe that such losses would have a material effect on our financial condition, results of operations or liquidity.



As of October 30, 2010, we had a guarantee totaling \$20 million for the maximum exposure on insurance reserves established by a former subsidiary included in the sale of our Direct Marketing Services business.

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J. C. PENNEY COMPANY, INC.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
(Unaudited)

Note 14 – Amendment to Private Label Credit Card Program Agreement

Effective October 29, 2010, we amended our agreement with GE Money Bank (GEMB) governing our private label credit card program (the Program). The amendment provides for certain changes to the Program to offset the financial impacts to GEMB from recent changes in law. To mitigate the expected revenue impacts resulting from the issuance of new regulations by the Federal Reserve under the Credit Card Accountability Responsibility and Disclosure Act of 2009, we agreed to eliminate the annual signing bonus payable to us, effective July 1, 2010, as well as an application bounty payment, also payable to us, and agreed to modify the gain share calculation. The amendment also permits GEMB to make certain changes to credit terms on cardholder accounts, including finance charges, late fees and minimum payments. In addition, the amendment entitles GEMB to offer a debt protection product to new and existing cardholders.

Note 15 – Effect of New Accounting Standards

Fair Value Measurements

In January 2010, we adopted the guidance issued by the Financial Accounting Standards Board on improving annual disclosures about fair value measurements, which requires reporting entities to make new disclosures about recurring or nonrecurring fair value measurements including significant transfers into and out of level 1 and level 2 categories and information on purchases, sales issuances, and settlements on a gross basis in the reconciliation of level 3 measurements. The guidance was effective for us in the beginning of 2010, except for level 3 reconciliation disclosures, which will be effective for our 2010 year end. Since these are “disclosure only” requirements, they do not have an impact on our consolidated financial statements.



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J. C. PENNEY COMPANY, INC.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
(Unaudited)

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,” “JCPenney” 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 30, 2010, 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 year ended January 30, 2010 (2009 Form 10-K). Unless otherwise indicated, this MD&A relates only to results from continuing operations, all references to earnings per share (EPS) are on a diluted basis and all references to years relate to fiscal years rather than to calendar years.

Third Quarter Highlights

- Earnings per share was \$0.19 per share for the quarter compared to \$0.11 per share in last year’s third quarter.
  - Comparable store sales increased 1.9% and were positive for the third consecutive quarter.
- Selling, general and administrative expenses were 31.6% of sales, an improvement of 130 basis points compared to third quarter last year.
  - We opened 16 Sephora inside JCPenney locations to bring our total to 231 locations.
    - We successfully launched the Liz Claiborne® brand.

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## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations—(Continued)

## Results of Operations

For the third quarter of 2010, net income was \$44 million, or \$0.19 per share, compared to \$27 million, or \$0.11 per share, last year. Excluding the non-cash impact of our primary pension plan, adjusted net income (non-GAAP) increased 11.1% to \$80 million, or \$0.34 per share, this year compared to \$72 million, or \$0.30 per share in last year's third quarter. During the third quarter we improved profitability by delivering topline sales growth coupled with a reduction in operating expenses. Comparable store sales improved 1.9% compared to last year, our third consecutive quarter of comparable store sales gains. Gross margin decreased \$61 million to 39.0% of sales primarily as a result of higher markdowns due to increased promotional activities, somewhat offset by vendor support, as well as a shift in our merchandise mix to a greater portion of good and better price points versus better and best price points. SG&A expenses decreased in the quarter by 3.8% compared to last year primarily due to a reduction in our incentive compensation accrual and lower marketing expenses.

| (\$ in millions, except EPS)                  | Three Months Ended |                  | Nine Months Ended |                  |
|---|--------------------|------------------|-------------------|------------------|
|   | Oct. 30,<br>2010   | Oct. 31,<br>2009 | Oct. 30,<br>2010  | Oct. 31,<br>2009 |
| Total net sales                               | \$ 4,189           | \$ 4,179         | \$ 12,056         | \$ 12,006        |
| Percent increase/(decrease) from prior year   | 0.2%               | (3.2)%           | 0.4%              | (5.7)%           |
| Comparable store sales increase/(decrease)(1) | 1.9%               | (4.6)%           | 1.5%              | (7.2)%           |
| Gross margin                                  | 1,635              | 1,696            | 4,817             | 4,790            |
| Operating expenses:                           |                    |                  |                   |                  |
| Selling, general and administrative (SG&A)    | 1,324              | 1,376            | 3,886             | 3,873            |
| Primary pension plan                          | 56                 | 73               | 166               | 227              |
| Supplemental pension plans                    | 8                  | 10               | 25                | 29               |
| Total pension plans                           | 64                 | 83               | 191               | 256              |
| Depreciation and amortization                 | 128                | 123              | 379               | 364              |
| Pre-opening                                   | 2                  | 4                | 7                 | 27               |
| Real estate and other, net                    | (7)                | 3                | (20)              | (10)             |
| Total operating expenses                      | 1,511              | 1,589            | 4,443             | 4,510            |
| Operating income                              | 124                | 107              | 374               | 280              |
|   | 180                | 180              | 540               | 507              |

|  |         |         |         |         |  |
|--|---------|---------|---------|---------|--|
| Adjusted operating income<br>(non-GAAP)(2) |         |         |         |         |  |
| Net interest expense                       | 57      | 64      | 173     | 195     |  |
| Bond premiums and unamortized<br>costs     | -       | -       | 20      | -       |  |
| Income before income taxes                 | 67      | 43      | 181     | 85      |  |
| Income tax expense                         | 23      | 16      | 63      | 34      |  |
| Net income                                 | \$ 44   | \$ 27   | \$ 118  | \$ 51   |  |
| Adjusted net income<br>(non-GAAP)(2)       | \$ 80   | \$ 72   | \$ 223  | \$ 190  |  |
| Diluted EPS                                | \$ 0.19 | \$ 0.11 | \$ 0.50 | \$ 0.22 |  |
| Adjusted diluted EPS<br>(non-GAAP)(2)      | \$ 0.34 | \$ 0.30 | \$ 0.94 | \$ 0.82 |  |
| Ratios as a percent of sales:              |         |         |         |         |  |
| Gross margin                               | 39.0%   | 40.6%   | 40.0%   | 39.9%   |  |
| SG&A                                       | 31.6%   | 32.9%   | 32.2%   | 32.3%   |  |
| Total operating expenses                   | 36.0%   | 38.0%   | 36.9%   | 37.6%   |  |
| Operating income                           | 3.0%    | 2.6%    | 3.1%    | 2.3%    |  |
| Adjusted operating income<br>(non-GAAP)(2) | 4.3%    | 4.3%    | 4.5%    | 4.2%    |  |

- (1) Comparable store sales are presented on a 52-week basis and include sales from new and relocated stores that have been opened for 12 consecutive full fiscal months and Internet sales 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 closures remain in the calculations.
- (2) See “Non-GAAP Financial Measures” on the following page for a discussion of these non-GAAP measures and reconciliation to their most directly comparable GAAP financial measures.

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### Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations—(Continued)

#### 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 financial measures, which our management uses to assess our operating results, is useful in order to better understand the operating performance of our core business and facilitate the comparison of our results to the results of our peer companies. It is important to view these financial measures in addition to, rather than as a substitute for, those measures and ratios prepared in accordance with GAAP. We have provided reconciliations of the most directly comparable GAAP measures to our non-GAAP financial measures presented.

The following non-GAAP financial measures are adjusted to exclude the non-cash impact of our primary pension plan expense. Unlike other operating expenses, primary pension plan expense 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. We believe it is useful for investors to understand the impact of the non-cash primary pension plan

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expense on our results of operations and therefore are presenting the following non-GAAP financial measures: (1) adjusted operating income; (2) adjusted net income; and (3) adjusted diluted EPS.

Adjusted Operating Income. The following table reconciles operating income, the most directly comparable GAAP financial measure, to adjusted operating income, a non-GAAP financial measure:

| (\$ in millions)                     | Three Months Ended |                  | Nine Months Ended |                  |
|--------------------------------------|--------------------|------------------|-------------------|------------------|
|                                      | Oct. 30,<br>2010   | Oct. 31,<br>2009 | Oct. 30,<br>2010  | Oct. 31,<br>2009 |
| Operating income (GAAP)              | \$ 124             | \$ 107           | \$ 374            | \$ 280           |
| As a percent of sales                | 3.0%               | 2.6%             | 3.1%              | 2.3%             |
| Add: primary pension plan expense    | 56                 | 73               | 166               | 227              |
| Adjusted operating income (non-GAAP) | \$ 180             | \$ 180           | \$ 540            | \$ 507           |
| As a percent of sales                | 4.3%               | 4.3%             | 4.5%              | 4.2%             |

Adjusted Net Income and Adjusted Diluted EPS. The following table reconciles net income and diluted EPS, the most directly comparable GAAP financial measures, to adjusted net income and adjusted diluted EPS, non-GAAP financial measures:

| (\$ in millions, except EPS)  | Three Months Ended |                  | Nine Months Ended |                  |
|---|--------------------|------------------|-------------------|------------------|
|   | Oct. 30,<br>2010   | Oct. 31,<br>2009 | Oct. 30,<br>2010  | Oct. 31,<br>2009 |
| Net income (GAAP)   | \$ 44              | \$ 27            | \$ 118            | \$ 51            |
| Diluted EPS (GAAP)  | \$ 0.19            | \$ 0.11          | \$ 0.50           | \$ 0.22          |
| Add: primary pension plan expense, net of income tax of \$20, \$28, \$61 and \$88 | 36                 | 45               | 105               | 139              |
| Adjusted net income (non-GAAP)  | \$ 80              | \$ 72            | \$ 223            | \$ 190           |
| Adjusted diluted EPS (non-GAAP)   | \$ 0.34            | \$ 0.30          | \$ 0.94           | \$ 0.82          |

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## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations—(Continued)

| Total Net Sales<br>(\$ in millions) | Three Months Ended |                  | Nine Months Ended |                  |
|-------------------------------------|--------------------|------------------|-------------------|------------------|
|                                     | Oct. 30,<br>2010   | Oct. 31,<br>2009 | Oct. 30,<br>2010  | Oct. 31,<br>2009 |
| Total net sales                     | \$ 4,189           | \$ 4,179         | \$ 12,056         | \$ 12,006        |
| Sales percent increase/(decrease):  |                    |                  |                   |                  |
| Total net sales                     | 0.2%               | (3.2)%           | 0.4%              | (5.7)%           |
| Comparable store sales              | 1.9%               | (4.6)%           | 1.5%              | (7.2)%           |

Total net sales increased \$10 million in the third quarter of 2010 compared to last year. For the first nine months of 2010, total net sales increased \$50 million from the same period last year. The components of the changes in net sales were as follows:

| (\$ in millions)  | Three Months Ended |                  | Nine Months Ended |                  |
|---|--------------------|------------------|-------------------|------------------|
|   | Oct. 30,<br>2010   | Oct. 31,<br>2009 | Oct. 30,<br>2010  | Oct. 31,<br>2009 |
| Comparable store sales increase/(decrease)                        | \$ 77              | \$ (183)         | \$ 167            | \$ (843)         |
| Sales from new stores, net  | 2                  | 77               | 77                | 222              |
| Sales through catalog print media and outlet stores<br>(decrease) | (69)               | (33)             | (194)             | (100)            |
| Total net sales increase/(decrease)                               | \$ 10              | \$ (139)         | \$ 50             | \$ (721)         |

In the third quarter of 2010, comparable store sales increased 1.9%, while comparable store sales in last year's third quarter declined 4.6%. This year's quarterly comparable store sales gain included strong back-to-school results with a 2.3% gain in August and a 5.1% comparable gain in September. The sales performance earlier in the quarter was partially offset by October sales that were impacted by unseasonably warm weather. Internet sales, through jcp.com, which are included in comparable store sales, increased 3.0% in the quarter compared to last year's decrease of 0.6%. As expected, catalog print media and outlet store sales declined in the quarter due to the elimination of our "big book" catalogs. Total net sales increased \$10 million to \$4,189 million compared with \$4,179 million last year.

During the third quarter of 2010, JCPenney mall store traffic was 2% above last year and off-mall store traffic was up about 8% with conversion rates for both mall and off-mall stores above last year. The overall number of transactions increased approximately 7% and units per transaction increased about 2% compared to last year's third quarter. Our average unit retail was down in the third quarter compared to the same 2009 period primarily as a result of our strategic effort to shift a greater portion of our assortments to good and better price points versus better and best price points along with a greater portion of clearance sales in our mix this year. Geographically, our best performance was in the southeast and southwest regions, and the weakest was in the northeast region.

Shoes and men's apparel were our best performing divisions for the quarter with gains compared to last year. Home experienced the weakest results for the quarter. Private brands, including exclusive brands found only at JCPenney reached 56% of total merchandise sales for the third quarter of 2010, up from 54% in the third quarter of 2009.

During the third quarter of 2010 we opened 16 Sephora inside JCPenney locations, reaching our 2010 goal of 231 compared to 155 locations at the end of the third quarter of 2009. We currently plan to continue opening



approximately 75 locations per year.

For the first nine months of 2010, comparable store sales increased 1.5%, while comparable store sales in the first nine months of last year declined 7.2%. Internet sales, through jcp.com, which are included in comparable store sales, increased 3.4% compared to a decrease of 2.1% last year. The contribution of sales from new stores declined due to fewer stores being opened. As expected, catalog print media and outlet store sales declined in the first nine months due to the elimination of our “big book” catalogs. Total net sales increased \$50 million, or 0.4%, to \$12,056 million compared with \$12,006 million last year.

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### Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations—(Continued)

#### Store Count and Gross Selling Space

The following table provides the number of department stores and gross selling space for the first nine months of 2010 and 2009:

|  | Three Months Ended  |                     | Nine Months Ended   |                     |
|--|---------------------|---------------------|---------------------|---------------------|
|  | Oct.<br>30,<br>2010 | Oct.<br>31,<br>2009 | Oct.<br>30,<br>2010 | Oct.<br>31,<br>2009 |
| Number of department stores                      |                     |                     |                     |                     |
| Beginning of period                              | 1,107               | 1,106               | 1,108               | 1,093               |
| Stores opened                                    | -                   | 3                   | 2                   | 17 (1)              |
| Closed stores                                    | -                   | -                   | (3)                 | (1) (1)             |
| End of period                                    | 1,107               | 1,109               | 1,107               | 1,109               |
| Gross selling space<br>(square feet in millions) |                     |                     |                     |                     |
| Beginning of period                              | 112                 | 112                 | 112                 | 110                 |
| Stores opened                                    | -                   | -                   | -                   | 2                   |
| Closed stores                                    | -                   | -                   | -                   | -                   |
| End of period                                    | 112                 | 112                 | 112                 | 112                 |

(1) Includes one relocation

#### Merchandise Initiatives

In August 2010, we launched Liz Claiborne, making JCPenney the exclusive department store for Liz Claiborne and Claiborne® branded merchandise in the United States and Puerto Rico. Available in all stores and jcp.com, Liz Claiborne is presented as a full lifestyle collection across approximately 30 categories, including women’s and men’s apparel, home and accessories. We are pleased with the early results of Liz Claiborne, which is exceeding plan.

Also in August 2010, we launched MNG by Mango® bringing high quality, affordable European runway fast fashion to our customers, with new merchandise arriving twice monthly. JCPenney is the exclusive U.S. department store retailer for MNG by Mango, and presents a full contemporary lifestyle offering of career and casual women’s sportswear as well as handbags, accessories and footwear. The brand falls into our better and best price points and is available on jcp.com and in 77 JCPenney stores this fall and will expand into additional stores next year.

In October 2010, we announced a collaboration with Condé Nast to launch Modern Bride™, a concept devoted to providing style and exceptional customer service in a special department store setting. In February 2011, we will introduce the Modern Bride concept in our Fine Jewelry department, in time for Valentine's Day, by offering an elevated and expanded assortment of bridal jewelry including engagement rings and wedding bands.

#### Recent Developments

In November 2010, we announced our newly created Growth Brands Division and our plans to pursue high potential opportunities in the retail sector. Our Growth Brands Division, which will include both digital and retail store opportunities, will be separate from our core JCPenney brand and will leverage our merchandising, marketing, product development, sourcing, IT, planning and allocation and consumer research capabilities to create new retail businesses and drive sales growth. The Growth Brands Division reflects our Long Range Plan objective of growth leadership in the industry.

Also during November, we announced three retail businesses that will debut under our Growth Brands Division. In summer 2011, we will launch two on-line retail businesses, Gifting Grace™ and CLAD™ in partnership with Hearst Magazines. Targeting women ages 30 to 54, giftinggrace.com™ will be a comprehensive online gifting resource offering an extensive

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#### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations—(Continued)

assortment of unique and memorable gift items, compelling content and convenient tools for gift-givers. CLAD, a complete online modern menswear resource aimed at fashionable men ages 25 to 54, will provide a full assortment of designer brands in a digital environment, along with tools to make it easy to shop often and with special fit solutions.

In April 2011, we plan to launch The Foundry Big & Tall Supply Co.™ with an ecommerce website catering to the men's big & tall customer, followed by the opening of 10 stand-alone specialty retail stores in the second quarter of 2011. The Foundry Big & Tall Supply Co. plans to carry an extensive assortment of highly sought-after national men's brands along with The Foundry Supply Company™ private brand merchandise, offering an upscale, one-stop shop. The Foundry Big & Tall Supply Co. plans expand to 150 stores by 2013, reaching a total of 300 stores over the next five years.

#### Gross Margin

Gross margin for the third quarter of 2010 declined \$61 million to \$1,635 million from \$1,696 million last year. The gross margin rate declined 160 basis points to 39.0% of sales versus 40.6% of sales in last year's third quarter. The gross margin rate decreased primarily due to higher markdowns from increased promotional activities that were somewhat offset by vendor support, and in part, to our strategic initiative to shift our merchandise mix to more items at good and better price points versus better and best price points. The gross margin level was also negatively impacted by the elimination of the "big book" catalogs. Through the first nine months of 2010, gross margin increased 10 basis points to a record level 40.0% of sales, or \$4,817 million, compared with 39.9% of sales, or \$4,790 million,

for the comparable 2009 period.

#### SG&A Expenses

SG&A expenses for the third quarter of 2010 declined 130 basis points to 31.6% of sales compared to 32.9% in last year's third quarter. The improvement was primarily the result of a reduction in our incentive compensation accrual and lower marketing expenses. While we launched Liz Claiborne during the quarter with an extensive marketing campaign, year-over-year marketing expenses declined as spend was reallocated from print media to local and national advertising and online media. On a dollar basis, SG&A expenses declined \$52 million, or 3.8%, to \$1,324 million compared with \$1,376 million last year. For the first nine months of 2010, SG&A expenses increased \$13 million to \$3,886 million compared to \$3,873 million last year, mainly attributable to costs related to new Sephora inside JCPenney locations, which are more labor intensive than other departments in the store and incremental costs related to net new stores, offset somewhat by reductions in our incentive compensation accrual.

#### Pension Expense

| (\$ in millions)           | Three Months Ended |                  | Nine Months Ended |                  |
|----------------------------|--------------------|------------------|-------------------|------------------|
|                            | Oct. 30,<br>2010   | Oct. 31,<br>2009 | Oct. 30,<br>2010  | Oct. 31,<br>2009 |
| Primary pension plan       | \$ 56              | \$ 73            | \$ 166            | \$ 227           |
| Supplemental pension plans | 8                  | 10               | 25                | 29               |
| Total                      | \$ 64              | \$ 83            | \$ 191            | \$ 256           |

Total pension expense consists of non-cash primary pension plan expense and supplemental pension plans expense. For the third quarter of 2010, primary pension plan expense declined \$17 million to \$56 million compared to \$73 million in the third quarter of 2009, primarily as a result of higher returns on pension plan assets as of the year-end measurement date due to positive market returns in 2009. Primary pension costs for the first nine months of 2010 declined \$61 million to \$166 million versus \$227 million in the comparable 2009 period.

#### Depreciation and Amortization Expenses

As expected with our investments in renovating existing stores and modest store growth in 2009, depreciation and amortization expenses in the third quarter of 2010 increased \$5 million to \$128 million from \$123 million last year. Depreciation and amortization expenses for the first nine months increased to \$379 million, compared with \$364 million last year.

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#### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations—(Continued)

##### Pre-Opening Expenses

Pre-opening expenses for new stores and Sephora inside JCPenney locations declined in the third quarter of 2010 to \$2 million compared to \$4 million in last year's third quarter when we opened three new stores. For the first nine months of 2010 and 2009, pre-opening expenses totaled \$7 million and \$27 million, respectively. We opened two new stores during the first nine months of 2010 compared to 17 new stores in the same period last year.

#### Real Estate and Other, Net

Real estate and other consists primarily of ongoing operating income from our real estate subsidiaries, as well as net gains from the sale of facilities and equipment that are no longer used in our operations, other non-operating corporate charges and credits and asset impairments. Real estate and other was a net credit of \$7 million for the third quarter of 2010 and a net charge of \$3 million for the third quarter of 2009. For the first nine months of 2010, real estate and other was a net credit of \$20 million versus \$10 million in same period in 2009. The year-over-year improvement is primarily related to the third quarter 2009 non-comparable recognition of impairments of two stores, one of which had been closed due to engineering structural issues in the shopping center. For the first nine months of 2009, real estate and other also included write-downs to reflect the fair value of certain corporate assets.

#### Operating Income

For the third quarter of 2010 operating income at \$124 million increased 40 basis points to 3.0% of sales, from 2.6% of sales or \$107 million in the third quarter of last year. Excluding the impact of non-cash primary pension plan expense, adjusted operating income (non-GAAP) was flat compared to last year at 4.3% of sales.

For the first nine months of 2010, operating income was \$374 million, or 3.1% of sales, compared with \$280 million, or 2.3% of sales, for the first nine months of 2009. Adjusted operating income increased 30 basis points to 4.5% percent of sales in 2010 versus 4.2% in 2009.

#### Net Interest Expense and Bond Premiums and Unamortized Costs

Net interest expense declined \$7 million to \$57 million for the third quarter of 2010 compared to \$64 million in 2009, primarily as a result of lower debt levels combined with lower interest rate levels resulting from long-term debt transactions completed during the year as discussed in Liquidity and Capital Resources. For the first nine months of 2010, interest expense declined \$22 million to \$173 million from \$195 million in the first nine months of 2009.

In the first nine months of 2010, we incurred approximately \$20 million in additional expenses, consisting primarily of bond premiums paid in connection with the debt tender offer that was completed in May 2010.

#### Income Taxes

Our effective income tax rate for the third quarter of 2010 was 34.3% compared to 37.2% in last year's third quarter. The rate was lower than last year due to a positive adjustment resulting from the true-up to actual after the filing of the Company's 2009 tax return. In determining the quarterly provision for income taxes, we use an estimated annual effective tax rate, which is based on our expected annual income, statutory tax rates and tax planning opportunities available in the various jurisdictions in which we operate. Subsequent recognition, de-recognition and measurement of a tax position taken in a previous period are separately recognized in the quarter in which they occur. Our effective income tax rate for the first nine months of 2010 was 34.8% compared with 40.0% for the first nine months of 2009. The year-over-year decline in tax rate resulted mainly from the third quarter true-up and a \$3 million reduction in the second quarter of 2010 primarily due to the positive resolution of state audit issues. In addition, last year's higher rate included the impact of state income tax legislative changes.

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## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations—(Continued)

## Liquidity and Capital Resources

## Financial Condition and Liquidity Position

The foundation of our strong liquidity position is our cash and cash equivalents balance and our \$750 million revolving credit facility entered into in April 2009.

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

| (\$ in millions)   | Nine Months Ended |                  |
|--|-------------------|------------------|
|  | Oct. 30,<br>2010  | Oct. 31,<br>2009 |
| Cash and cash equivalents                                    | \$ 1,666          | \$ 2,129         |
| Merchandise inventory  | 4,267             | 4,018            |
| Property and equipment, net                                  | 5,285             | 5,319            |
| Long-term debt, including current maturities                 | 3,099             | 3,392            |
| Stockholders' equity   | 4,941             | 4,588            |
| Total capital  | 8,040             | 7,980            |
| Additional amounts available under our credit agreement      | 750               | 750              |
| Cash flow from operating activities of continuing operations | (518)             | 473              |
| Free cash flow (non-GAAP financial measure)(1)               | (707)             | (142)            |
| Capital expenditures   | 380               | 424              |
| Dividends paid   | 142               | 136              |
| Ratios:  |                   |                  |
| Debt-to-total capital(2)                                     | 38.5%             | 42.5%            |
| Cash-to-debt(3)  | 53.8%             | 62.8%            |

(1) See the following page 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.

(2) Long-term debt, including current maturities, divided by total capitalization.

(3) Cash and cash equivalents divided by long-term debt, including current maturities.

## Cash and Cash Equivalents

We ended the third quarter of 2010 with approximately \$1.7 billion in cash and cash equivalents, which represents approximately 54% of our \$3.1 billion of outstanding long-term debt. During the first nine months of 2010, we used \$693 million of cash balances to reduce long-term debt through payments at maturity and a debt tender offer. In addition, we issued \$400 million of new debt and used the net proceeds to make a discretionary contribution to our qualified pension plan.



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## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations—(Continued)

## Free Cash Flow (Non-GAAP Financial Measure)

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 excluding discretionary cash contributions to our primary pension plan net of the tax benefit from such contribution, less capital expenditures and dividends paid, plus the proceeds from the sale of assets. Adjustments to exclude discretionary pension plan contributions are more indicative of our ability to generate cash flows from operating activities. We believe discretionary contributions to our pension plan are more reflective of financing transactions to reduce off-balance sheet debt relating to the pension liability. Free cash flow is a relevant indicator of our ability to repay maturing debt, both on- and off-balance sheet, revise our dividend policy or fund other uses of capital that we believe will enhance stockholder value. 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 off-balance sheet pension debt and other obligations or payments made for business acquisitions. Therefore, it is important to view free cash flow in addition to, rather than as a substitute for, our entire statement of cash flows and those measures prepared in accordance with GAAP.

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

| (\$ in millions)  | Nine Months Ended |                     |
|---|-------------------|---------------------|
|   | Oct. 30,<br>2010  | Oct.<br>31,<br>2009 |
| Net cash (used in)/provided by operating activities of continuing operations (GAAP) | \$ (518)          | \$ 473              |
| Add:  |                   |                     |
| Discretionary pension contribution  | 392               | -(1)                |
| Proceeds from sale of assets  | 4                 | 12                  |
| Less:   |                   |                     |
| Tax benefit of pension contribution   | (63)              | (67)(1)             |
| Capital expenditures  | (380)             | (424)               |
| Dividends paid, common  | (142)             | (136)               |
| Free cash flow (non-GAAP)   | \$ (707)          | \$ (142)            |

(1) In 2009, a \$340 million non-cash contribution in Company common stock was made to the pension plan, which resulted in a cash tax benefit of \$67 million.

During the first nine months of 2010, our free cash flow decreased \$565 million to negative \$707 million compared to negative \$142 million in the same period last year. The decrease was mainly the result of higher merchandise inventory receipts, net of merchandise accounts payable, partially offset by a reduction in capital expenditures.

## Operating Activities of Continuing Operations

Our operations are seasonal in nature, with the business depending to a great extent on the last quarter of the year when a significant portion of our sales, profits and operating cash flows are realized.

Cash flow from operating activities for the first nine months decreased from last year primarily due to the \$392 million voluntary cash contribution to our primary pension plan and \$544 million of higher receipts of merchandise inventory, net of merchandise accounts payable, for the first nine months of 2010 compared to last year's first nine months.

Merchandise inventory increased \$249 million, or 6.2% over last year's low inventory levels, which had declined about 10% from 2008 levels, as well as current year increases to inventory levels to support the launch of our merchandise initiatives, including Liz Claiborne.



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## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations—(Continued)

## Cash Flow from Investing Activities - Continuing Operations

| (\$ in millions)                | Nine Months Ended |                  |
|---------------------------------|-------------------|------------------|
|                                 | Oct. 30,<br>2010  | Oct. 31,<br>2009 |
| Net cash (used in)/provided by: |                   |                  |
| Capital expenditures            | \$ (380)          | \$ (424)         |
| Proceeds from sale of assets    | 4                 | 12               |
| Investing activities            | \$ (376)          | \$ (412)         |

Capital expenditures were \$380 million for the first nine months of 2010, compared with \$424 million for the first nine months of 2009. Capital spending was principally for store renewals and modernizations that included new Sephora inside JCPenney locations as well as capitalized software. During the first nine months of 2010, we opened two new stores and 76 Sephora inside JCPenney locations, reaching our planned total for the year of Sephora inside JCPenney locations of 231. Consistent with the first nine months, capital expenditures for the remainder of 2010 are expected to be funded with cash flow from operations and existing cash and cash equivalent balances. We continue to anticipate full year 2010 capital expenditures to be about \$500 million.

During the first nine months of 2009, we opened 17 new stores, including one relocation, and 64 Sephora inside JCPenney locations.

## Financing Activities of Continuing Operations

| (\$ in millions)                         | Nine Months Ended |                  |
|--|-------------------|------------------|
|  | Oct. 30,<br>2010  | Oct. 31,<br>2009 |
| Net cash provided by/(used in):          |                   |                  |
| Proceeds from issuance of long-term debt | \$ 392            | \$ -             |
| Payments of long-term debt               | (693)             | (113)            |
| Dividends paid                           | (142)             | (136)            |
| Other                                    | (8)               | (31)             |
| Financing activities                     | \$ (451)          | \$ (280)         |

On March 1, 2010, we repaid at maturity \$393 million principal amount of 8.0% Notes due 2010. On May 24, 2010, we accepted for purchase \$300 million principal amount of JCP's outstanding 6.375% Senior Notes due 2036, which were validly tendered pursuant to a cash tender offer. Also on May 24, 2010, we closed on our offering of \$400 million aggregate principal amount of 5.65% Senior Notes due 2020 and used proceeds of the offering, net of discounts, of approximately \$392 million to make a voluntary cash contribution to the J. C. Penney Corporation, Inc. Pension Plan.

During the first nine months of 2009, we accepted for purchase \$104 million principal amount of JCP's outstanding 8.0% Notes due March 1, 2010, which were validly tendered pursuant to a cash tender offer and purchased \$9 million of these notes in the open market.

As authorized by the Board of Directors, we paid quarterly dividends of \$0.20 per share during the first nine months of 2010 and 2009.

Cash Flow Outlook

For the remainder of 2010, we believe that our cash flow generated from operations, combined with our existing cash and cash equivalents will be adequate to fund capital expenditures, working capital and dividend payments. We believe that our strong financial position continues to provide the financial flexibility to support our growth initiatives.

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### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations—(Continued)

Our cash flows may be impacted by many factors, including the effects of the current economic environment and consumer confidence and competitive conditions in the retail industry. Based on the nature of our business, we consider these factors to be normal business risks.

#### 2009 Credit Facility

In April 2009, J. C. Penney Company, Inc., JCP and J. C. Penney Purchasing Corporation entered into a three-year, \$750 million revolving credit agreement (2009 Credit Facility) with a syndicate of lenders with JPMorgan Chase Bank, N.A., as administrative agent. The credit facility, which matures in April 2012, may be used for general corporate purposes and the issuance of letters of credit.

The 2009 Credit Facility is secured by our merchandise inventory, which security interest can be released upon attainment of certain credit rating levels. Pricing under the 2009 Credit Facility is tiered based on JCP's senior unsecured long-term credit ratings issued by Moody's Investors Service, Inc. and Standard & Poor's Ratings Services. JCP's obligations under the 2009 Credit Facility are guaranteed by J. C. Penney Company, Inc.

As of October 30, 2010, we were in compliance with our required financial covenants. As of such date, our leverage ratio was 2.1 to 1, our fixed charge coverage ratio was 3.7 to 1 and our asset coverage ratio was 30 to 1.

We do not expect to borrow under our 2009 Credit Facility other than to provide support for the issuance of letters of credit, which totaled \$144 million at October 30, 2010.

#### Contractual Obligations and Commitments

Aggregate information about our obligations and commitments to make future payments under contractual or contingent arrangements was disclosed in the 2009 Form 10-K. Our unrecorded contractual obligations related to merchandise have increased since year end primarily due to the seasonality of our business and updates to our supplier base in the ordinary course of business.

#### Critical Accounting Policies

This MD&A is based upon our 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. Actual results may differ from these estimates under different assumptions or conditions.

There have been no changes to our critical accounting policies during the first nine months of 2010. 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 2009 Form 10-K.

#### Recently Issued Accounting Pronouncements

Recently issued accounting pronouncements are discussed in Note 15 to the unaudited Interim Consolidated Financial Statements.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations—(Continued)

Seasonality

The results of operations and cash flows for the third quarter and first nine months of 2010 are not necessarily indicative of the results for the entire year. Our annual earnings and cash flows depend to a great extent on the results of operations for the last quarter of our fiscal year when a significant portion of our sales and profits are recorded and cash flows from operations become positive.

Cautionary Statement Regarding Forward-Looking Statements

This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, which reflect our current view of future events and financial performance. The words expect, plan, anticipate, believe, intend, should, will and similar expressions identify forward-looking statements. Any such forward-looking statements are subject to known and unknown risks and uncertainties that may cause our 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 spending patterns, credit availability and debt levels, changes in store traffic trends, the cost of goods, trade restrictions, changes in tariff, freight, paper and postal rates, changes in the cost of fuel and other energy and transportation costs, increases in wage and benefit costs, competition and retail industry consolidations, interest rate fluctuations, dollar and other currency valuations, risks associated with war, an act of terrorism or pandemic, and a systems failure and/or security breach that results in the theft, transfer or unauthorized disclosure of customer, employee or Company information. Furthermore, the Company typically earns a disproportionate share of its operating income in the fourth quarter due to holiday buying patterns, and such buying patterns are difficult to forecast with certainty. While we believe that our assumptions are reasonable, we caution that it is impossible to predict the degree to which any such factors could cause actual results to differ materially from predicted results.

For additional discussion on risks and uncertainties, see Item 1A, Risk Factors, in our 2009 Form 10-K and subsequent filings. 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 October 30, 2010 are similar to those disclosed in the 2009 Form 10-K.

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 third quarter ended October 30, 2010, 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 1A. Risk Factors.

There have been no material changes to the risk factors set forth under Part I, Item 1A of the 2009 Form 10-K.

## Item 6. Exhibits.

## Exhibit Index

| Exhibit No. | Exhibit Description  | Form | Incorporated by Reference |         |                | Filed (†) or<br>Furnished<br>(‡) Herewith<br>(as indicated) |
|-------------|--|------|---------------------------|---------|----------------|---|
|             |  |      | SEC<br>File No.           | Exhibit | Filing<br>Date |   |
| 3.1         | Restated Certificate of Incorporation of J. C. Penney Company, Inc., as amended to May 19, 2006  | 10-Q | 001-15274                 | 3.1     | 06/07/2006     |   |
| 3.2         | J. C. Penney Company, Inc. Bylaws, as amended to February 24, 2010   | 8-K  | 001-15274                 | 3.1     | 03/01/2010     |   |
| 4.1         | Stockholder Protection Rights Agreement, dated as of October 15, 2010, between J. C. Penney Company, Inc. and Mellon Investor Services, LLC, as Rights Agent   | 8-K  | 001-15274                 | 4.1     | 10/18/2010     |   |
| 10.1        | First Amendment, dated as of October 29, 2010, to Consumer Credit Card Program Agreement by and between J. C. Penney Corporation, Inc. and GE Money Bank, as amended and restated as of November 5, 2009 | 8-K  | 001-15274                 | 10.1    | 10/29/2010     |   |
| 31.1        | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002   |      |                           |         |                | †   |
| 31.2        | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002   |      |                           |         |                | †   |
| 32.1        | Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002   |      |                           |         |                | †   |
| 32.2        | Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002   |      |                           |         |                | †   |
| 101.INS     | XBRL Instance Document   |      |                           |         |                | ‡   |

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|         |  |   |
|---------|--|---|
| 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 / Dennis P. Miller  
Dennis P. Miller  
Senior Vice President and Controller  
(Principal Accounting Officer)

Date: December 8, 2010

