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

FORM 10-K

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

For the 52 weeks ended January 26, 2002 Commission file number 1-15274

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

DELAWARE	26-0037077
(State of incorporation)	(I.R.S. Employer ID No.)

6501 LEGACY DRIVE, PLANO, TEXAS	75024-3698
(Address of principal executive offices)	(Zip Code)

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

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

Title of each class	Name of each exchange on which registered
Common Stock of 50(cent)par value	New York Stock Exchange
Preferred Stock Purchase Rights	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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 ___.

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant: $5,934,453,628 as of April 18, 2002.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: 267,317,731 shares of Common Stock of 50(cent) par value, as of April 18, 2002.

DOCUMENTS INCORPORATED BY REFERENCE

Documents from which portions are incorporated by reference	Parts of the Form 10-K into which incorporated
1. J. C. Penney Company, Inc.	Part I, Part II, and

2001 Annual Report to Stockholders Part IV

2. J. C. Penney Company, Inc. Part III
   2002 Proxy Statement

3. J. C. Penney Funding Corporation Part I and Part IV
   Form 10-K for fiscal year 2001

PART I
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1. Business.

Effective January 27, 2002, J. C. Penney Company, Inc. changed its corporate structure to a holding company format. As part of this structure, J. C. Penney Company, Inc. changed its name to J. C. Penney Corporation, Inc. ("JCP"), and became a wholly-owned subsidiary of a newly formed affiliated holding company ("Holding Company"). The new holding company assumed the name J. C. Penney Company, Inc. ("Company"). The Holding Company has no direct subsidiaries other than JCP. The Holding Company has no independent assets or operations. All outstanding shares of common and preferred stock were automatically converted into the identical number of and type of shares in the new holding company. Stockholders' ownership interests in the business did not change as a result of the new structure. Shares of the Company remain publicly traded under the same symbol (JCP) on the New York Stock Exchange. The Company is a co-obligor (or guarantor, as appropriate) regarding the payment of principal and interest on JCP's outstanding debt securities. The guarantee by the Holding Company of certain of JCP's outstanding debt securities is full and unconditional. The Holding Company and its consolidated subsidiaries, including JCP, are collectively referred to in this Annual Report on Form 10-K as "Company" or "JCPenney", unless indicated otherwise.

JCPenney was founded by James Cash Penney in 1902; JCP was incorporated in Delaware in 1924 and the Company was incorporated in Delaware in January 2002. The Company has grown to be a major retailer, operating 1,075 JCPenney department stores in all 50 states, Puerto Rico and Mexico. In addition, the Company operates 54 Renner department stores in Brazil. The major portion of the Company's business consists of providing merchandise and services to consumers through department stores, catalog departments and the Internet. Department stores, catalog and the Internet generally serve the same customers, have virtually the same mix of merchandise and the majority of catalog sales are completed in department stores. In addition, department stores accept returns from sales initiated in department stores, catalog and via the Internet. The Company markets predominantly family apparel, jewelry, shoes, accessories and home furnishings. In addition, the Company, through its subsidiary, Eckerd Corporation ("Eckerd"), operates a chain of 2,641 drugstores located throughout the Southeast, Sunbelt, and Northeast regions of the United States.

In June 2001, JCP closed on the sale of its J. C. Penney Direct Marketing Services, Inc. ("DMS") assets, including its J. C. Penney Life Insurance subsidiaries and related businesses to a U.S. subsidiary of AEGON, N.V. ("AEGON"). JCP received cash at closing of approximately $1.3 billion ($1.1 billion after tax). Concurrent with the closing, JCP entered into a 15-year strategic and marketing services arrangement with AEGON designed to offer an expanded range of financial and membership services products to JCPenney customers. Over the term of this arrangement, the Company will receive fee income related to sales of certain financial products and membership services. Such amounts will be recognized as earned in the Company's

financial statements. The Company's financial statements are presented to reflect DMS as a discontinued operation.

The business of marketing merchandise and services is highly competitive. The Company is one of the largest department store and drugstore retailers in the United States and it has numerous competitors. Many factors enter into the competition for the consumer's patronage, including price, quality, style, service, product mix, convenience, and credit availability. The Company's annual earnings depend to a significant extent on the results of operations for the last quarter of its fiscal year. Sales for that period average approximately 30 percent of annual sales.

Information about certain aspects of the business of the Company included under the captions of "Discontinued Operations" (page 21), "Restructuring and Other Charges, Net", (pages 26 to 28), and "Segment Reporting" (pages 29 to 30), which appears in the section of the Company's 2001 Annual Report to Stockholders entitled "Notes to the Consolidated Financial Statements", "Five Year Financial Summary" (page 31), and "Five Year Operations Summary" (page 32), which appear in the Company's 2001 Annual Report to Stockholders on the pages indicated in the parenthetical references, is incorporated herein by reference and filed hereto as Exhibit 13 in response to Item 1 of Form 10-K.

In addition, information about J. C. Penney Funding Corporation, a wholly owned consolidated subsidiary of JCP, which appears in Item 1 of its separate Annual Report on Form 10-K for the fiscal year ended January 26, 2002, is incorporated herein by reference and filed hereto as Exhibit 99(a) in response to Item 1 of Form 10-K.

Suppliers. The Company purchases its merchandise from approximately 2,650 domestic and foreign suppliers, many of which have done business with the Company for many years. In addition, Eckerd purchases merchandise and pharmaceuticals from approximately 3,250 suppliers, substantially all of which are domestic. The majority of Eckerd's suppliers have done business with Eckerd for many years. In addition to its Plano, Texas Home Office, the Company, through its international purchasing subsidiary, maintained buying offices in fifteen foreign countries and quality assurance inspection offices in an additional nine foreign countries as of January 26, 2002.

Employment. The Company and its consolidated subsidiaries employed approximately 229,000 persons as of January 26, 2002.

Environment. Environmental protection requirements did not have a material effect upon the Company's operations during fiscal 2001. While management believes it unlikely, it is possible that compliance with such requirements will lengthen lead time in expansion plans and increase construction, and therefore, operating costs due in part to the expense and time required to conduct environmental and ecological studies and related remediation.

Forward-Looking Statements. This Annual Report on Form 10-K may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements, which reflect the Company's current views of future events and financial performance, involve known and unknown risks and uncertainties that may cause the Company's actual results to be materially different from planned or expected results. Those risks and uncertainties include, but are not limited to, competition, consumer demand, seasonality, economic conditions and government activity. Investors should take such risks into account when making investment decisions.

2. Properties.

At January 26, 2002, the Company operated 3,770 retail stores, comprised of 1,075 JCPenney department stores, 54 Renner department stores and 2,641 drugstores, in all 50 states, Puerto Rico, Brazil, and Mexico, of which 221 JCPenney department stores, four Renner department stores and 46 drugstores were owned. The Company also operated six catalog fulfillment centers, of which five were owned. The Company operated sixty-eight store distribution centers and outside stockrooms of which five distribution centers were owned. Eckerd operated and owned nine drugstore distribution centers. The Company owned the Company's Home Office facility, Eckerd corporate offices, and Renner's corporate headquarters in Porto Allegre, Brazil. In addition, the Company owned as part of its Home Office approximately 240 acres of property in Plano, Texas, adjacent to the facility. Information relating to certain of the Company's facilities included under the caption "Five Year Operations Summary", which appears on page 32 of the Company's 2001 Annual Report to Stockholders, is incorporated herein by reference and filed hereto as Exhibit 13 in response to Item 2 of Form 10-K.

3. Legal Proceedings.

On or about July 13, 2001, William E. York as Independent Executor of the Estate of Marguerite York, and six other individuals, filed a First Amended Class Action Petition against JCP, DMS, J. C. Penney Life Insurance Company ("JCPenney Life"), Quest Membership Services, Inc., J. C. Penney International Insurance Group, Inc, J. C. Penney Telemarketing Inc., AEGON, N.V., AEGON USA, Inc., AEGON Group, AEGON Special Markets Group, Inc., and Commonwealth General Corporation in state court in Corpus Christi, Texas.* The Plaintiffs had previously purchased accidental death and dismemberment insurance coverage from JCPenney Life and allege, among other things, that some of them did not agree to buy the coverage, that coverage was misrepresented, and that benefits were wrongfully denied. The theories of legal liability urged by the plaintiffs are violations of the Texas Deceptive Trade Practices - Consumer Protection Act, the Texas Insurance Code, fraud, negligent misrepresentation, breach of contract, unjust enrichment, and gross negligence. The pleadings do not distinguish between the alleged conduct of one defendant and the alleged conduct of any other defendant. The Court is allowing plaintiffs to conduct discovery to determine whether they have a legitimate basis for including the defendants, other than JCPenney Life, as parties.

The assets of DMS, including the stock of JCPenney Life, were sold to Commonwealth General Corporation ("Commonwealth"), a domestic subsidiary of AEGON, N. V., pursuant to a Stock Purchase Agreement (the "Agreement") dated as of March 7, 2001, among Commonwealth as Purchaser, DMS as Seller, and JCP as Parent corporation of DMS. Thus, as a matter of law, all of the liabilities of JCPenney Life stayed with that company after the sale. Commonwealth is currently providing defense to JCP and its subsidiaries DMS, J. C. Penney International Insurance Group, Inc., and J. C. Penney Telemarketing, Inc. while reserving all rights and claims it may have against these companies. All of the defendants are jointly represented by outside counsel.

Under the Agreement, JCP and DMS agreed to indemnify Commonwealth for any liability of JCPenney Life, but only to the extent that such liability arises out of or relates to a breach of a representation and warranty in the Agreement. Commonwealth may claim entitlement to indemnification from JCP and DMS if a final determination in the York action is adverse to JCPenney Life, and Commonwealth successfully contends that the liability arose out of a representation or warranty in the Agreement. JCP's and DMS's liability for breaches of representations and warranties is subject to both a deductible and a cap. JCP's insurance policies may provide a basis for a claim for some coverage of these entities in this matter, if needed.

Though not clearly articulated in their pleadings, it appears that the named plaintiffs will seek certification of a national class. The defendants will vigorously oppose a motion to certify a class. Discovery and analysis of facts and law relevant to the issue of class certification will probably be the focus of the lawsuit in the foreseeable future. Ruling on that motion will likely be appealed by the losing party. Until that appeal process is completed, there will be no trial on the merits.

The Company denies the allegations against it and its current and former subsidiaries and is confident that the case will be vigorously defended. Although it is too early to predict the outcome of this lawsuit, management is of the opinion that it should not have a material adverse effect on the Company's consolidated financial position or results of operations.

* An earlier Petition was never served on the Defendants. A Second Amended Class Action Petition was filed on or about March 1, 2002.

4. Submission of Matters to a Vote of Security Holders.

No matter was submitted to a vote of stockholders during the fourth quarter of fiscal 2001.

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Executive Officers of the Registrant

The following is a list, as of April 1, 2002, of the names and ages of the executive officers of J. C. Penney Company, Inc. and of the offices and other positions held by each such person with the Company. At the time of the implementation of the holding company format, and as of April 1, 2002, these officers held identical positions with JCP. References to such officers' current positions are for J. C. Penney Company, Inc. and JCP; references to JCPenney positions held during fiscal years 2001 and earlier (prior to the creation of the holding company) are for JCP. There is no family relationship between any of the named persons.

Name	Offices and other positions held with the Company	Age
Allen Questrom	Chairman of the Board and Chief Executive Officer; Director	61
Vanessa J. Castagna	Executive Vice President, President and Chief Operating Officer of JCPenney Stores, Catalog and Internet	51
Robert B. Cavanaugh	Executive Vice President and Chief Financial Officer	50
Gary L. Davis	Executive Vice President, Chief Human Resources and Administration Officer	58
J. Wayne Harris	Executive Vice President, Chairman and Chief Executive Officer - Eckerd Drug Stores	62
Charles R. Lotter	Executive Vice President, Secretary and General Counsel	64
Stephen F. Raish	Executive Vice President and Chief Information Officer	51

Mr. Questrom has served as Chairman of the Board and Chief Executive Officer of the Company since September 13, 2000. He has served as a director of J. C. Penney Corporation, Inc. since March 2002. Prior to joining the Company, Mr. Questrom served as Chairman of the Board from 1999 to January 2001, and Chief Executive Officer from 1999 to 2000, of Barney's New York, Inc., Chairman of the Board and Chief Executive Officer of Federated Department Stores, Inc. from 1990 to 1997, and President and Chief Executive Officer of Neiman Marcus Stores from 1988 to 1990. He was the senior policy maker in these positions. Prior to assuming these positions, Mr. Questrom held executive, senior management, and senior merchandise manager positions at Federated Department Stores.

Ms. Castagna has served as Executive Vice President, President and Chief Operating Officer of JCPenney Stores, Catalog and Internet since May 2001. Ms. Castagna served as Executive Vice President and Chief Operating Officer of JCPenney Stores, Merchandising and Catalog from 1999 to May 2001. Prior to joining the Company, Ms. Castagna served as Senior Vice President and General Merchandise Manager for women's and children's accessories and apparel at Wal-Mart Stores Division since 1996. Ms. Castagna's responsibilities at Wal-Mart also included product, trend, and brand development for family apparel. She joined Wal-Mart in 1994 as Senior Vice President and General

Merchandising Manager for home decor, furniture, crafts and children's apparel. Prior to joining Wal-Mart, Ms. Castagna served in several senior level positions in the retailing industry, including Senior Vice President, General Merchandising Manager for women's and juniors for Marshalls stores, a division of TJX Companies, and Vice President, Merchandising - Women's at Target Stores, a division of Dayton Hudson Corporation (now known as Target Corporation).

Mr. Cavanaugh was elected Executive Vice President and Chief Financial Officer of the Company effective January 2, 2001. He was elected Senior Vice President and Chief Financial Officer of Eckerd Corporation, a subsidiary of the

Company, in 1999. From 1996 to 1999 he served as Vice President and Treasurer of the Company. He has served as a director of Eckerd Corporation since 2001, and a director of J. C. Penney Corporation, Inc. since March 2002.

Mr. Davis has served as Executive Vice President, Chief Human Resources and Administration Officer, since 1998 and served as Senior Vice President, Director of Human Resources and Administration from 1997 to 1998. From 1996 to 1997, he served as Senior Vice President and Director of Personnel and Administration. He was elected President of the Northwestern Region in 1992 and served in that capacity until 1996.

Mr. Harris has served as Executive Vice President, Chairman and Chief Executive Officer - Eckerd Drug Stores, since May 2001. Mr. Harris has served as Chairman of the Board and Chief Executive Officer of Eckerd Corporation, a subsidiary of the Company, since October 1, 2000. Prior to joining the Company, Mr. Harris served as Chairman of the Board and Chief Executive Officer of The Grand Union Company from 1997 to 2000, and he served as Chairman of the Board and Chief Executive Officer of Canadian Co./GAP from 1995 to 1997, and held various other executive and senior management positions with the Great Atlantic & Pacific Company, and also The Kroger Co.

Mr. Lotter was elected an Executive Vice President of the Company in 1993. He was elected Senior Vice President, General Counsel and Secretary in 1987. He has served as a director of Eckerd Corporation since 1996 and a director of J.C. Penney Corporation, Inc. since March 2002.

Mr. Raish was elected Executive Vice President and Chief Information Officer of the Company effective January 2, 2001. In 1996 he was named Director of Coordination, JCPenney Stores. He was elected Divisional Vice President in 1997. In 1998 he was elected President, Home and Leisure Division and in 1999 he was named President of the Accelerating Change Together (ACT) initiative, the Company's centralized merchandising process in department stores and catalog.

PART II

5. Market for Registrant's Common Equity and Related Stockholder Matters.

The Company's Common Stock is traded principally on the New York Stock Exchange, as well as on other exchanges in the United States. In addition, the Company has authorized 25 million shares of Preferred Stock, of which 604,278 shares of Series B ESOP Convertible Preferred Stock were issued and outstanding at January 26, 2002. Additional information relating to the Common Stock and Preferred Stock of the Company included under the captions "Consolidated Statements of Stockholders' Equity" (page 17), "Capital Stock" (page 23), and "Quarterly Data (unaudited)" (page 31), which appear in the Company's 2001 Annual Report to Stockholders on the pages indicated in the parenthetical references, is incorporated herein by reference and filed hereto as Exhibit 13 in response to Item 5 of Form 10-K.

6. Selected Financial Data.

Information for the fiscal years 1997-2001 included in the "Five Year Financial Summary" on page 31 of the Company's 2001 Annual Report to Stockholders is incorporated herein by reference and filed hereto as Exhibit 13 in response to Item 6 of Form 10-K.

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

The discussion and analysis included under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations", which appears in the Company's 2001 Annual Report to Stockholders, beginning on page 3 thereof, is incorporated herein by reference and filed hereto as Exhibit 13 in response to Item 7 of Form 10-K.

Forward-Looking Statements.

This Annual Report on Form 10-K, may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements, which reflect the Company's current views of future events and financial performance, involve known and unknown risks and uncertainties that may cause the Company's actual results to be materially different from planned or expected results. Those risks and uncertainties that could affect the Company's results include, but are not limited to, competition, consumer demand, seasonality, economic conditions and government activity. Investors should take such risks into account when making investment decisions.

7A. Quantitative and Qualitative Disclosures About Market Risk.

The Company maintains a majority of its cash and cash equivalents in short-term financial instruments with original maturities of three months or less. Such investments are subject to interest rate risk and may have a small decline in value if interest rates increase.

Since the financial instruments are of short duration, a change of 100 basis points in interest rates would not have a material effect on the Company's financial condition.

The Company's outstanding long-term debt as of January 26, 2002 is at fixed interest rates and would not be affected by interest rate changes. Future borrowings under the Company's multi-year revolving credit facility, to the extent that fluctuating rate loans were used, would be affected by interest rate changes. As of January 26, 2002 no borrowings had been made under this facility. The Company does not believe that a change of 100 basis points in interest rates would have a material effect on the Company's financial condition.

See the discussion and analysis under "Fair Value of Financial Instruments" and "Short-Term Debt" which appear in the Company's 2001 Annual Report to Stockholders on page 23, and which are incorporated herein by reference and filed hereto as Exhibit 13 in response to Item 7A of Form 10-K.

8. Financial Statements and Supplementary Data.

The Consolidated Balance Sheets of J. C. Penney Company, Inc. and subsidiaries as of January 26, 2002, and January 27, 2001, and the related Consolidated Statements of Operations, Stockholders' Equity and Cash Flows for each of the years in the three-year period ended January 26, 2002, appearing on pages 15 through 18 of the Company's 2001 Annual Report to Stockholders, together with the Independent Auditors' Report of KPMG LLP, independent certified public accountants, appearing on page 14 of the Company's 2001 Annual Report to Stockholders, the Notes to the Consolidated Financial Statements on pages 19 through 30, and the quarterly financial highlights ("Quarterly Data (unaudited)") appearing on page 31 thereof, are incorporated by reference and filed hereto as Exhibit 13 in response to Item 8 of Form 10-K.

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

None.

PART III*

10. Directors and Executive Officers of the Registrant.*

11. Executive Compensation.*

12. Security Ownership of Certain Beneficial Owners and Management.*
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13. Certain Relationships and Related Transactions.*
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* Pursuant to General Instruction G to Form 10-K, the information called for by Items 10, with respect to directors of the Company (to the extent not set forth in Part I hereof), 11, 12, and 13 is incorporated by reference to the Company's 2002 Proxy Statement, which involves the election of directors, the final copy of which the Company filed with the Securities and Exchange Commission, pursuant to Regulation 14A, on April 9, 2002.

PART IV
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14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K.

(a) 1. All Financial Statements. See Item 8 of this Annual Report on Form 10-K for financial statements incorporated by reference to the Company's 2001 Annual Report to Stockholders.

(a) 2. Financial Statement Schedules. Schedule II (Valuation and Qualifying Accounts and Reserves) is attached on Page F-1. See Independent Auditors' Report of KPMG LLP, independent certified public accountants, appearing on page 14 of this Annual Report on Form 10-K.

All other schedules have been omitted as they are inapplicable or not required under the rules, or the information has been submitted in the consolidated financial statements and related financial information included in the Company's 2001 Annual Report to Stockholders incorporated herein by reference and filed hereto as Exhibit 13.

Separate financial statements are filed for J. C. Penney Funding Corporation, a wholly owned consolidated subsidiary of JCP, in its separate Annual Report on Form 10-K for the 52 weeks ended January 26, 2002, which financial statements, together with the Independent Auditors' Report of KPMG LLP thereon, are incorporated herein by reference and filed hereto as Exhibit 99(b).

(a) 3. Exhibits. See separate Exhibit Index on pages G-1 through G-10.

(b) Reports on Form 8-K during the fourth quarter of fiscal 2001. None.

(c) Each management contract or compensatory plan or arrangement required to be filed as an exhibit to this form is filed as part of the separate Exhibit Index on pages G-1 through G-9 and specifically identified as such beginning on page G-4.

SIGNATURES

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

J. C. PENNEY COMPANY, INC.

(Registrant)

/s/ R. B. Cavanaugh
By: ______________________________
R. B. Cavanaugh
Executive Vice President
and Chief Financial Officer

Dated: April 25, 2002

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

Signatures	Title	Date
A. I. Questrom* A. I. Questrom	Chairman of the Board and Chief Executive Officer (principal executive officer); Director	April 25, 2002
/s/ R. B. Cavanaugh R. B. Cavanaugh	Executive Vice President and Chief Financial Officer (principal financial officer)	April 25, 2002
W. J. Alcorn* W. J. Alcorn	Senior Vice President and Controller (principal accounting officer)	April 25, 2002
M. A. Burns* M. A. Burns	Director	April 25, 2002
T. J. Engibous* T. J. Engibous	Director	April 25, 2002
K. B. Foster* K. B. Foster	Director	April 25, 2002
V. E. Jordan, Jr.* V. E. Jordan, Jr.	Director	April 25, 2002
J. C. Pfeiffer	Director	
A. W. Richards* A. W. Richards	Director	April 25, 2002
L. H. Roberts* L. H. Roberts	Director	April 25, 2002
C. S. Sanford, Jr.* C. S. Sanford, Jr.	Director	April 25, 2002
R. G. Turner* R. G. Turner	Director	April 25, 2002

*By:/s/ R. B. Cavanaugh

R. B. Cavanaugh
Attorney-in-fact

INDEPENDENT AUDITORS' REPORT

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

Under date of February 21, 2002, we reported on the consolidated balance sheets of J. C. Penney Company, Inc. and Subsidiaries as of January 26, 2002 and January 27, 2001, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years in the three-year period ended January 26, 2002, as contained in the 2001 Annual Report to Stockholders. These consolidated financial statements and our report thereon are incorporated by reference in the Company's Annual Report on Form 10-K for the 2001 fiscal year. In connection with our audits of the aforementioned consolidated financial statements, we also audited the related consolidated financial statement schedule listed in Item 14(a)(2) of the Annual Report on Form 10-K. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement schedule based on our audits.

In our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ KPMG LLP

Dallas, Texas
February 21, 2002

J. C. PENNEY COMPANY, INC. AND SUBSIDIARIES SCHEDULE II

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
(Amounts in millions)

Description	52 Weeks Ended January 26, 2002	52 Weeks Ended January 27, 2001	52 Weeks Ended January 29, 2000
Reserves deducted from assets			
Allowance for doubtful accounts/(1)/			
Balance at beginning of period	$ 30	$ 20	$ 124
Additions charged to costs and expenses	29	33	129
Deductions of write-offs, less recoveries	(32)	(23)	(157)
Reduction in reserves related to the sale of the bank receivables portfolio	-	-	(76)
Balance at end of period	$ 27	$ 30	$ 20

/(1)/ Excludes amounts related to the Company's retained interest in JCP Master Credit Card Trust.

Other reserves			
State tax valuation allowance	$ 85	$ 60	$ -

EXHIBIT INDEX

Exhibit

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2. (i) Plan of acquisition, reorganization, arrangement, liquidation
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or succession Agreement and Plan of Merger dated as of January 23,
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2002, between JCP and Company (incorporated by reference to Exhibit 2 to Company's Form 8-K dated January 27, 2002, SEC File No. 001-15274).

3. (i) Articles of Incorporation Restated Certificate of Incorporation of
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the Company (incorporated by reference to Exhibit 3(i) to Company's Form 8-K dated January 27, 2002, SEC File No. 001-15274).

(ii) Bylaws Bylaws of Company, as amended to January 27, 2002

(incorporated by reference to Exhibit 3(ii) to Company's Form 8-K dated January 27, 2002, SEC File No. 001-15274).

4. Instruments defining the rights of security holders, including indentures
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(a) Indenture, dated as of October 1, 1982, between JCP and U.S. Bank National Association, Trustee (formerly First Trust of California, National Association, as Successor Trustee to Bank of America National Trust and Savings Association) (incorporated by reference to Exhibit 4(a) to Company's Annual Report on Form 10-K for the 52 week period ended January 29, 1994*).

(b) First Supplemental Indenture, dated as of March 15, 1983, between JCP and U.S. Bank National Association, Trustee (formerly First Trust of California, National Association, as Successor Trustee to Bank of America National Trust and Savings Association)(incorporated by reference to Exhibit 4(b) to Company's Annual Report on Form 10-K for the 52 week period ended January 29, 1994*).

(c) Second Supplemental Indenture, dated as of May 1, 1984, between JCP and U.S. Bank National Association, Trustee (formerly First Trust of California, National Association, as Successor Trustee to Bank of America National Trust and Savings Association) (incorporated by reference to Exhibit 4(c) to Company's Annual Report on Form 10-K for the 52 week period ended January 29, 1994*).

(d) Third Supplemental Indenture, dated as of March 7, 1986, between JCP and U.S. Bank National Association, Trustee (formerly First Trust of California, National Association, as Successor Trustee to Bank of America National Trust and Savings Association) (incorporated by reference to Exhibit 4(d) to Company's Registration Statement on Form S-3, SEC File No. 33-3882).

(e) Fourth Supplemental Indenture, dated as of June 7, 1991, between JCP and U.S. Bank National Association, Trustee (formerly First Trust of California, National Association, as Successor Trustee to Bank of America National Trust and Savings Association) (incorporated by reference to Exhibit 4(e) to Registrant's Registration Statement on Form S-3, SEC File No. 33-41186).

(f) Indenture, dated as of April 1, 1994, between JCP and U.S. Bank National Association, Trustee (formerly First Trust of California, National Association, as Successor Trustee to Bank of America National Trust and Savings Association) (incorporated by reference to Exhibit 4(a) to Company's Registration Statement on Form S-3, SEC File No. 33-53275).

(g) Amended and Restated 364-Day Revolving Credit Agreement dated as of

December 3, 1996, among JCP, J. C. Penney Funding Corporation, the Lenders party thereto, Morgan Guaranty Trust Company of New York, as Agent for the Lenders, and Bank of America Illinois, Bankers Trust Company, The Chase Manhattan Bank, Citibank, N.A., Credit Suisse First Boston, and NationsBank of Texas, N.A., as Co-Agents for the Lenders (incorporated by reference to Exhibit 4(d) to J. C. Penney Funding Corporation's Annual Report on Form 10-K for the 52 weeks ended January 25, 1997, SEC File No. 1-4947-1).

(h) Amended and Restated Five-Year Revolving Credit Agreement dated as of December 3, 1996, among JCP, J. C. Penney Funding Corporation, the Lenders party thereto, Morgan Guaranty Trust Company of New York, as Agent for the Lenders, and Bank of America Illinois, Bankers Trust Company, The Chase Manhattan Bank, Citibank, N.A., Credit Suisse First Boston, and NationsBank of Texas, N.A., as Co-Agents for the Lenders (incorporated by reference to Exhibit 4(e) to J. C. Penney Funding Corporation's Annual Report on Form 10-K for the 52 weeks ended January 25, 1997, SEC File No. 1-4947-1).

(i) Amendment and Restatement Agreement to 364-Day Revolving Credit Agreement, dated as of October 1, 1999, among JCP, J. C. Penney Funding Corporation, the Lenders party thereto, The Chase Manhattan Bank, as Administrative Agent, Salomon Smith Barney Inc., as Syndication Agent, and Bank of America, N.A. and Credit Suisse First Boston, as Co-Documentation Agents (incorporated by reference to Exhibit 4(a) to J. C. Penney Funding Corporation's Quarterly Report on Form 10-Q for the 39 weeks ended October 30, 1999, SEC File No. 1-4947-1).

(j) Amendment and Restatement Agreement to Five-Year Revolving Credit Agreement, dated as of November 21, 1997, among JCP, J. C. Penney Funding Corporation, the Lenders party thereto, Morgan Guaranty Trust Company of New York, as Agent, and Bank of America National Trust and Savings Association, Bankers Trust Company, The Chase Manhattan Bank, Citibank, N.A., Credit Suisse First Boston and NationsBank of Texas, N.A., as Managing Agents (incorporated by reference to Exhibit 4(g) to J. C. Penney Funding Corporation's Annual Report on Form 10-K for the 53 weeks ended January 31, 1998, SEC File No. 1-4947-1).

(k) Guaranty dated as of February 17, 1997, executed by JCP, (incorporated by reference to Exhibit 4(c) to J. C. Penney Funding Corporation's Annual Report on Form 10-K for the 52 weeks ended January 25, 1997, SEC File No. 1-4947-1).

(l) Guaranty dated as of December 3, 1996, executed by JCP, with respect to the Amended and Restated 364-Day and Five-Year Revolving Credit Agreements, each dated as of December 3, 1996 (incorporated by reference to Exhibit 4(m) to J. C. Penney Funding Corporation's Annual Report on Form 10-K for the 52 weeks ended January 25, 1997, SEC File No. 1-4947-1).

(m) Indenture, dated as of October 15, 2001, between JCP and The Bank of New York, Trustee (incorporated by reference to Exhibit 4(a) to Company's Registration Statement on Form S-3 filed November 29, 2001, SEC File No. 333-74122).

(n) Rights Agreement, dated as of January 23, 2002, by and between Company and Mellon Investor Services LLC as Rights Agent (incorporated by reference to Exhibit 4 to Company's Form 8-K dated January 27, 2002, SEC File No. 001-15274).

(o) Fifth Supplemental Indenture, dated as of January 27, 2002, among the Company, JCP and U.S. Bank National Association, Trustee (formerly First Trust of California, National Association, as Successor Trustee to Bank of America National Trust and Savings Association) to Indenture dated as of October 1, 1982.

(p) First Supplemental Indenture dated as of January 27, 2002, among the Company, JCP and U.S. Bank National Association, Trustee (formerly Bank of America National Trust and Savings Association) to Indenture dated as of April 1, 1994.

(q) First Supplemental Indenture dated as of January 27, 2002, among the Company, JCP and The Bank of New York, Trustee to Indenture dated as of October 15, 2001 (incorporated by reference to Exhibit 4(a)(ii) to Company's Registration Statement on Form S-3, SEC File No. 333-74122).

(r) First Supplemental Indenture dated as of January 27, 2002, among the Company, JCP and JPMorgan Chase Bank, Trustee (formerly First Trust of

California, National Association, as Successor Trustee to Bank of America National Trust and Savings Association) to Indenture dated as of May 1, 1981.

(s) Registration Rights Agreement for Convertible Subordinated Notes dated October 15, 2001 between JCP and Initial Purchasers.

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

10. Material contracts

(i) Other than Compensatory Plans or Arrangements

(a) Loan Agreement dated as of January 28, 1986 between JCP and J. C. Penney Funding Corporation (incorporated by reference to Exhibit 4 to Company's Current Report on Form 8-K, Date of Report - January 28, 1986*).

(b) Amendment No. 1 to Loan Agreement dated as of January 28, 1986 between JCP and J. C. Penney Funding Corporation (incorporated by reference to Exhibit 1 to Company's Current Report on Form 8-K, Date of Report - December 31, 1986*).

(c) Amendment No. 2 to Loan Agreement dated as of January 28, 1986 between JCP and J. C. Penney Funding Corporation (incorporated by reference to Exhibit 10(i)(e) to Company's Annual Report on Form 10-K for the 52 weeks ended January 25, 1997*).

(d) Agreement dated as of September 30, 2000, between JCP and J.E. Oesterreicher (incorporated by reference to Exhibit 10(c) to Company's Quarterly Report on Form 10-Q for the 13 and 39 week periods ended October 28, 2000*).

(ii) Compensatory Plans or Arrangements required to be filed as Exhibits to this Report pursuant to Item 14 (c) of this Report

(a) J. C. Penney Company, Inc. Directors' Equity Program Tandem Restricted Stock Award/Stock Option Plan (incorporated by reference to Exhibit 10(k) to Company's Annual Report on Form 10-K for the 52 week period ended January 28, 1989*).

(b) J. C. Penney Company, Inc. 1989 Equity Compensation Plan (incorporated by reference to Exhibit A to Company's definitive Proxy Statement for its Annual Meeting of Stockholders held on May 19, 1989*).

(c) February 1995 Amendment to J. C. Penney Company, Inc. 1989 Equity Compensation Plan (incorporated by reference to Exhibit 10(ii)(k) to Company's Annual Report on Form 10-K for the 52 week period ended January 28, 1995*).

(d) February 1996 Amendment to J. C. Penney Company, Inc. 1989 Equity Compensation Plan, as amended (incorporated by reference to Exhibit

10(ii)(k) to Company's Annual Report on Form 10-K for the 52 week period ended January 27, 1996*).

(e) J. C. Penney Company, Inc. 1993 Equity Compensation Plan (incorporated by reference to Exhibit A to Company's definitive Proxy Statement for its Annual Meeting of Stockholders held on May 21, 1993*).

(f) February 1995 Amendment to J. C. Penney Company, Inc. 1993 Equity Compensation Plan (incorporated by reference to Exhibit 10(ii)(l) to Company's Annual Report on Form 10-K for the 52 week period ended January 28, 1995*).

(g) November 1995 Amendment to J. C. Penney Company, Inc. 1993 Equity Compensation Plan, as amended (incorporated by reference to Exhibit 10(ii)(n) to Company's Annual Report on Form 10-K for the 52 week period ended January 27, 1996*).

(h) J. C. Penney Company, Inc. 1993 Non-Associate Directors' Equity Plan (incorporated by reference to Exhibit B to Company's definitive Proxy Statement for its Annual Meeting of Stockholders held on May 21, 1993*).

(i) February 1995 Amendment to J. C. Penney Company, Inc. 1993 Non-Associate Directors' Equity Plan (incorporated by reference to Exhibit 10(ii)(m) to Company's Annual Report on Form 10-K for the 52 week period ended January 28, 1995*).

(j) J. C. Penney Company, Inc. Deferred Compensation Plan as amended through July 14, 1993 (incorporated by reference to Exhibit 10(a) to Company's Quarterly Report on Form 10-Q for the 13 and 26 week periods ended July 31, 1993*).

(k) J. C. Penney Company, Inc. Deferred Compensation Plan for Directors, as amended effective April 9, 1997 (incorporated by reference to Exhibit 10(a) to Company's Quarterly Report on Form 10-Q for the 13 week period ended April 26, 1997*).

(l) Directors' Charitable Award Program (incorporated by reference to Exhibit 10(r) to Company's Annual Report on Form 10-K for the 52 week period ended January 27, 1990*).

(m) Form of Indemnification Trust Agreement between Company and The Chase Manhattan Bank (formerly Chemical Bank) dated as of July 30, 1986, as amended (incorporated by reference to Exhibit 1 to Exhibit B to Company's definitive Proxy Statement for its Annual Meeting of Stockholders held on May 29, 1987*).

(n) J. C. Penney Company, Inc. 1997 Equity Compensation Plan (incorporated by reference to Exhibit A to Company's definitive proxy statement for its Annual Meeting of Stockholders held on May 16, 1997*).

(o) J. C. Penney Company, Inc. 1999 Separation Allowance Program for Profit-Sharing Management Associates, effective July 14, 1999, as amended September 8, 1999 (incorporated by reference to Exhibit 10(a) to Company's Quarterly Report on Form 10-Q for the 13 and 26 weeks ended July 31, 1999*).

(p) Employment Agreement dated as of August 1, 1999 between the Company and V. J. Castagna (incorporated by reference to Exhibit 10(b) to Company's Quarterly Report on Form 10-Q for 13 and 39 weeks ended October 30, 1999*).

(q) Employment Agreement dated as of July 21, 2000 between the Company and A. I. Questrom (incorporated by reference to Exhibit 10 to Company's Current Report on Form 8-K dated July 21, 2000*).

(r) J. C. Penney Company, Inc. 2000 New Associate Equity Plan (incorporated by reference to Exhibit 10(a) to Company's Quarterly Report on Form 10-Q for the 13 period ended April 28, 2000*).

(s) Employment Agreement dated as of September 25, 2000 between the Company and J. W. Harris (incorporated by reference to Exhibit 10(b) to Company's Quarterly Report on Form 10-Q for the 13 and 39 week periods ended April 28, 2001*).

(t) Amendment No. 1, dated as of May 19, 2000 to the Employment Agreement dated as of August 1, 1999, between the Company and V.J. Castagna (incorporated by reference to Exhibit 10(ii)(av) to Company's Annual Report on Form 10-K for the 52 week period ended January 27, 2001*).

(u) Incentive Compensation Agreements dated as of January 2, 2001, between the Company and G. L. Davis, C. R. Lotter, and M. W. Taxter (incorporated by reference to Exhibit 10(ii) to Company's Annual Report on Form 10-K for the 52 week period ended January 27, 2001*).

(v) J. C. Penney Company, Inc. 2001 Equity Compensation Plan (incorporated by reference to Exhibit B to Company's definitive proxy statement for its Annual Meeting of Stockholders held on May 18, 2001*).

(w) J. C. Penney Company, Inc. 1999 Separation Allowance Program for Profit-Sharing Management Associates, as amended through January 25, 2002.

(x) J. C. Penney Company, Inc. Supplemental Term Life Insurance Plan for Management Profit-Sharing Associates, as amended through January 1, 2002.

(y) J. C. Penney Corporation, Inc. 1995 Benefit Restoration Plan, as amended through January 27, 2002.

(z) Supplemental Retirement Program for Management Profit-Sharing Associates of J. C. Penney Corporation, Inc., as amended through January 27, 2002.

(aa) J. C. Penney Corporation, Inc. Mirror Savings Plans I, II and III, as amended through January 27, 2002.

(ab) Form of Indemnification Agreement between Company, J. C. Penney Corporation, Inc. and individual Indemnitees, as amended through January 27, 2002.

(ac) J. C. Penney Corporation, Inc. 1989 Management Incentive Compensation Program, as amended through February 20, 2002.

(ad) Eckerd Corporation Key Management Bonus Program, dated as of February 1, 1999.

* SEC file number 1-777

11. Statement re: Computation of per share earnings

See calculation of earnings per share on page 15 in the Consolidated Statement of Operations in the Company's 2001 Annual Report to Stockholders.

12. Statement re: Computation of ratios

(a) Computation of Ratios of Available Income to Combined Fixed Charges and Preferred Stock Dividend Requirement.
(b) Computation of Ratios of Available Income to Fixed Charges.

13. Annual report to security holders

Excerpt from Company's 2001 Annual Report to Stockholders.

21. Subsidiaries of the registrant

List of certain subsidiaries of J. C. Penney Company, Inc. as of April 1, 2002.

23. Independent Auditors' Consent
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24. Power of Attorney
----

99. Additional Exhibits

(a) Item 1 of J. C. Penney Funding Corporation Annual Report on Form 10-K for the 52 weeks ended January 26, 2002 (incorporated by reference to J. C. Penney Funding Corporation Annual Report on Form 10-K for the 52 weeks ended January 26, 2002, filed concurrently herewith, SEC File No. 1-4947-1).

(b) Excerpt from J. C. Penney Funding Corporation Annual Report.

EXHIBIT 4(o)

J. C. PENNEY COMPANY, INC.

AND

U. S. BANK NATIONAL ASSOCIATION,
Trustee

FIFTH SUPPLEMENTAL INDENTURE

Dated as of January 27, 2002

TO

INDENTURE

Dated as of October 1, 1982

FIFTH SUPPLEMENTAL INDENTURE

Fifth Supplemental Indenture dated as of January 27, 2002, among J. C. Penney Company, Inc., a Delaware corporation (hereinafter called "Co-Obligor"), J. C. Penney Corporation, Inc., a wholly-owned subsidiary of Co-Obligor, (formerly known as J. C. Penney Company, Inc., and hereinafter called the "Company") and U.S. Bank National Association, a corporation organized and existing as a national banking association under the laws of the United States of America, Trustee (formerly First Trust of California, National Association as successor trustee to Bank of America National Trust and Savings Association, and hereinafter called the "Trustee").

RECITALS OF THE COMPANY

The Company and the Trustee have heretofore executed an Indenture dated as of October 1, 1982 (as heretofore amended and supplemented, hereinafter called the "Original Indenture"), providing for the issuance of Securities of the Company in accordance with its terms.

JCP Merger Sub, Inc., a wholly-owned subsidiary of the Co-Obligor has been merged with and into the Company (the "Merger") and, as a result of the Merger, the Company has become a wholly-owned subsidiary of Co-Obligor.

Co-Obligor has agreed to become co-obligor with respect to the Securities issued under the Original Indenture.

Section 10.01 of the Original Indenture provides, among other things, that the Company and the Trustee may enter into indentures supplemental to the Original Indenture for, among other things, making any provisions with respect to matters arising under the Original Indenture which shall not be inconsistent with the provisions of the Original Indenture, provided that such action shall not adversely affect the interest of any of the Holders of the Securities.

All things necessary to make this Supplemental Indenture a valid agreement of the Company, in accordance with the terms of the Original Indenture, have been done.

NOW, THEREFORE, THIS FIFTH SUPPLEMENTAL INDENTURE WITNESSETH:

That in order to make provision for Co-Obligor to become a co-obligor with the Company on the Securities issued under the Original Indenture, Co-Obligor and the Company, in consideration of the Trustee entering into this Supplemental Indenture, covenant and agree with the Trustee as follows:

Section 1. Co-Obligor Status.

Co-Obligor hereby expressly agrees to become a co-obligor on the Securities liable for the due and punctual payment of the principal of (and premium, if any) and interest, if any, on all the Securities.

Section 2. Joint and Several Liability.

Co-Obligor and the Company, as co-obligors, shall be jointly and severally liable for the due and punctual payment of the principal of (and premium, if any) and interest, if any, on all Securities.

Section 3. No Release of Company.

Notwithstanding the agreement of the Co-Obligor to become liable for the due and punctual payment of the principal of (and premium, if any) and interest, if any, on all the Securities issued under and subject to the Indenture, the Company remains fully liable for all of its obligations under the Indenture and has not been released from any liabilities or obligations thereunder.

Section 4. General.

This Supplemental Indenture is executed and shall be construed as an indenture supplemental to the Original Indenture, and, as provided in the Original Indenture, this Supplemental Indenture forms a part thereof.

All terms used in this Supplemental Indenture which are defined in the Original Indenture shall have the meanings assigned to them in the Original Indenture except as otherwise provided in this Supplemental Indenture.

The recitals contained herein shall be taken as the statements of the Company, and the Trustee assumes no responsibility for their correctness. The Trustee makes no representations as to the validity or sufficiency of this Supplemental Indenture.

All covenants and agreements in this Supplemental Indenture by Co-Obligor shall bind its successors and assigns, whether so expressed or not.

This Supplemental Indenture shall be construed in accordance with and governed by the laws of the State of New York.

This Supplemental Indenture may be executed in any number of counterparts, each of which shall be an original; but such counterparts shall together constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Supplemental Indenture to be duly executed, and their respective corporate seals to be hereunto affixed and attested, all as of the day and year first above written.

J. C. Penney Company, Inc.,
as Co-Obligor

By:/s/ Robert B. Cavanaugh

Attest:/s/ C. R. Lotter
Secretary

J. C. Penney Corporation, Inc.,
as the Company

By:/s/ Robert B. Cavanaugh

Attest:/s/ Jeffrey J. Vawrinek
Assistant Secretary

U.S. Bank National Association,
Trustee

By:/s/ S. Dodson

Attest:/s/ William W. MacMillan

Authorized Officer

EXHIBIT 4(p)

J. C. PENNEY COMPANY, INC.

AND

U. S. BANK NATIONAL ASSOCIATION,
Trustee

FIRST SUPPLEMENTAL INDENTURE

Dated as of January 27, 2002

TO

INDENTURE

Dated as of April 1, 1994

FIRST SUPPLEMENTAL INDENTURE

First Supplemental Indenture dated as of January 27, 2002, among J. C. Penney Company, Inc., a Delaware corporation (hereinafter called "Co-Obligor"), J. C. Penney Corporation, Inc., a wholly-owned subsidiary of Co-Obligor (formerly known as J. C. Penney Company, Inc. and hereinafter called the "Company") and U. S. Bank National Association, a corporation organized and existing as a national banking association under the laws of the United States of America, Trustee (formerly Bank of America National Trust and Savings Association as Trustee, and hereinafter called the "Trustee").

RECITALS OF THE COMPANY

The Company and the Trustee have heretofore executed an Indenture dated as of April 1, 1994 (hereinafter called the "Original Indenture"), providing for the issuance of Securities of the Company in accordance with its terms.

JCP Merger Sub, Inc., a wholly-owned subsidiary of the Co-Obligor has been merged with and into the Company (the "Merger") and, as a result of the Merger, the Company has become a wholly-owned subsidiary of Co-Obligor.

Co-Obligor has agreed to become a co-obligor with respect to certain of the Securities issued under the Original Indenture, and a guarantor of certain other Securities.

Section 10.01 of the Original Indenture provides, among other things, that the Company and the Trustee may enter into indentures supplemental to the Original Indenture for, among other things, making any provisions with respect to matters arising under the Original Indenture which shall not be inconsistent with the provisions of the Original Indenture, provided that such action shall not adversely affect the interest of the Holders of the Securities in any material respect.

All things necessary to make this Supplemental Indenture a valid agreement of the Company, in accordance with the terms of the Original Indenture, have been done.

NOW, THEREFORE, THIS FIRST SUPPLEMENTAL INDENTURE WITNESSETH:

That in order to make provision for Co-Obligor to become a co-obligor with the Company on the Securities issued under the Original Indenture, other than the 7-5/8% Debentures Due 2097 (the "2097 Debentures"), and for the Co-Obligor becoming the guarantor of the 2097 Debentures, Co-Obligor and the Company, in consideration of the Trustee entering into this First Supplemental Indenture, covenant and agree with the Trustee as follows:

Section 1. Co-Obligor Status.

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With the exception of the 2097 Debentures, Co-Obligor hereby expressly agrees to become a co-obligor on the Securities liable for the due and punctual payment of the principal of (and premium, if any) and interest, if any, on such Securities.

Section 2. Joint and Several Liability.
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With the exception of the 2097 Debentures, Co-Obligor and the Company as co-obligors shall be jointly and severally liable for the due and punctual payment of the principal of (and premium, if any) and interest, if any, on such Securities.

Section 3. 7-5/8% Debentures Due 2097.
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Co-Obligor unconditionally and irrevocably guarantees the full and punctual payment of the principal of (and premium, if any) and interest, if any, on the 2097 Debentures when due, whether at maturity, by acceleration or redemption, or otherwise under the Original Indenture within applicable grace periods, if any, provided that Co-Obligor shall have no payment obligation under this Section 3 except upon the failure of the Company to make payments on the 2097 Debentures when due and payable under the terms and conditions of the 2097 Debentures, whether upon a scheduled payment date, pursuant to acceleration or redemption or otherwise.

Section 4. No Release of Company.
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Notwithstanding the agreement of the Co-Obligor to become liable for the due and punctual payment of the principal of (and premium, if any) and interest, if any, on all the Securities except the 2097 Debentures issued under and subject to the Indenture and to guarantee the full and punctual payment of the principal of (and premium, if any) and interest, if any, on the 2097 Debentures as provided in Section 3 of this Supplemental Indenture, the Company remains fully liable for all of its obligations under the Indenture and has not been released from any liabilities or obligations thereunder.

Section 5. General.
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This Supplemental Indenture is executed and shall be construed as an indenture supplemental to the Original Indenture, and, as provided in the Original Indenture, this Supplemental Indenture forms a part thereof.

All terms used in this Supplemental Indenture which are defined in the Original Indenture shall have the meanings assigned to them in the Original Indenture except as otherwise provided in this Supplemental Indenture.

The recitals contained herein shall be taken as the statements of the Company, and the Trustee assumes no responsibility for their correctness. The Trustee makes no representations as to the validity or sufficiency of this Supplemental Indenture.

All covenants and agreements in this Supplemental Indenture by Co-Obligor shall bind its successors and assigns, whether so expressed or not.

This Supplemental Indenture shall be construed in accordance with and governed by the internal laws (and not the law of conflicts) of the State of New York applicable to agreements made or instruments entered into and, in each case, performed in said State.

This Supplemental Indenture may be executed in any number of counterparts, each of which shall be an original; but such counterparts shall together constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Supplemental Indenture to be duly executed, and their respective corporate seals to be hereunto affixed and attested, all as of the day and year first above written.

J. C. Penney Company, Inc.,
as Co-Obligor

By:/s/ Robert B. Cavanaugh

Attest:/s/ C. R. Lotter

Secretary

J. C. Penney Corporation, Inc.,
as the Company

By:/s/ Robert B. Cavanaugh

Attest:/s/ Jeffrey J. Vawrinek

Assistant Secretary

U. S. Bank National Association,
Trustee

By:/s/ S. Dodson

Attest:/s/ William W. MacMillan

Authorized Officer

EXHIBIT 4(r)

J. C. PENNEY COMPANY, INC.

AND

J. C. PENNEY CORPORATION, INC.

AND

JPMORGAN CHASE BANK,
as Trustee

FIRST SUPPLEMENTAL INDENTURE

Dated as of January 27, 2002

TO

INDENTURE

Dated as of May 1, 1981

FIRST SUPPLEMENTAL INDENTURE

First Supplemental Indenture dated as of January 27, 2002, among J. C. Penney Company, Inc., a Delaware corporation (hereinafter called "Co-Obligor"), J. C. Penney Corporation, Inc., a wholly-owned subsidiary of the Co-Obligor (formerly known as J. C. Penney Company Inc. and hereinafter called the "Company") and JPMorgan Chase Bank (formerly known as Chemical Bank), a New York banking corporation, as Trustee (hereinafter called the "Trustee").

RECITALS OF THE COMPANY

The Company and the Trustee have heretofore executed an Indenture dated as of May 1, 1981 (hereinafter called the "Original Indenture"), providing for the issuance of Debentures of the Company in accordance with its terms.

JCP Merger Sub, Inc., a wholly-owned subsidiary of the Co-Obligor has been merged with and into the Company (the "Merger") and, as a result of the Merger, the Company has become a wholly-owned subsidiary of Co-Obligor.

Co-Obligor has agreed to become a co-obligor with respect to the Debentures issued under the Original Indenture.

Section 9.01 of the Original Indenture provides, among other things, that the Company and the Trustee may enter into indentures supplemental to the Original Indenture for, among other things, making any provisions with respect to matters arising under the Original Indenture which shall not be inconsistent with the provisions of the Original Indenture, provided that such action shall not adversely affect the interest of the Holders of the Debentures.

All things necessary to make this Supplemental Indenture a valid agreement of the Company, in accordance with the terms of the Original Indenture, have been done.

NOW, THEREFORE, THIS FIRST SUPPLEMENTAL INDENTURE WITNESSETH:

That in order to make provision for Co-Obligor to become a co-obligor with the Company on the Debentures issued under the Original Indenture, Co-Obligor and the Company in consideration of the Trustee entering into this Supplemental Indenture, covenant and agree with the Trustee as follows:

Section 1. Co-Obligor Status.

Co-Obligor hereby expressly agrees to become a co-obligor of the

Debentures liable for the due and punctual payment of the principal of, and interest on all the Debentures.

Section 2. Joint and Several Liability.

Co-Obligor and the Company, as co-obligors, shall be jointly and severally liable for the due and punctual payment of the principal of, and interest on all Debentures.

Section 3. No Release of Company.

Notwithstanding the agreement of the Co-Obligor to become liable for the due and punctual payment of the principal of, and interest on all the Debentures issued under and subject to the Indenture, the Company remains fully liable for all of its obligations under the Indenture and has not been released from any liabilities or obligations thereunder.

Section 4. General.

This Supplemental Indenture is executed and shall be construed as an indenture supplemental to the Original Indenture, and, as provided in the Original Indenture, this Supplemental Indenture forms a part thereof.

All terms used in this Supplemental Indenture which are defined in the Original Indenture shall have the meanings assigned to them in the Original Indenture except as otherwise provided in this Supplemental Indenture.

The recitals contained herein shall be taken as the statements of the Company, and the Trustee assumes no responsibility for their correctness. The Trustee makes no representations as to the validity or sufficiency of this Supplemental Indenture.

All covenants and agreements in this Supplemental Indenture by Co-Obligor and the Company shall bind their successors and assigns, whether so expressed or not.

This Supplemental Indenture shall be construed in accordance with and governed by the laws of the State of New York.

This Supplemental Indenture may be executed in any number of counterparts, each of which shall be an original; but such counterparts shall together constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Supplemental Indenture to be duly executed, and their respective corporate seals to be hereunto affixed and attested, all as of the day and year first above written.

J. C. Penney Company, Inc.,
as Co-Obligor

By:/s/ Robert B. Cavanaugh

Attest:/s/ C. R. Lotter
Secretary

J. C. Penney Corporation, Inc.,
as the Company

By:/s/ Robert B. Cavanaugh

Attest:/s/ Jeffrey J. Vawrinek
Assistant Secretary

JPMorgan Chase Bank,
as Trustee

By:/s/ N. Rodriquez

Attest:/s/ Diane Darconte

Authorized Officer

Exhibit 4(s)

$600,000,000

J. C. PENNEY COMPANY, INC.

5% CONVERTIBLE SUBORDINATED NOTES DUE 2008

REGISTRATION RIGHTS AGREEMENT

October 15, 2001

CREDIT SUISSE FIRST BOSTON CORPORATION
J. P. MORGAN SECURITIES INC.
SALOMON SMITH BARNEY INC.
FIRST UNION SECURITIES, INC.
HSBC SECURITIES (USA) INC.
ROBERTSON STEPHENS, INC.
BEAR, STEARNS & CO. INC.
LEHMAN BROTHERS INC.
FAHNESTOCK & CO. INC.
THE WILLIAMS CAPITAL GROUP, L.P.
c/o Credit Suisse First Boston Corporation,
Eleven Madison Avenue,
New York, N.Y. 10010-3629

Dear Sirs:

J. C. Penney Company, Inc., a Delaware corporation (the "Company"), proposes to issue and sell to the several initial purchasers (collectively, the "Initial Purchasers") named in Schedule A to a purchase agreement dated as of October 9, 2001 (the "Purchase Agreement"), upon the terms set forth therein, $600,000,000 aggregate principal amount (plus up to an additional $50,000,000 principal amount) of its 5% Convertible Subordinated Notes due 2008 (the "Initial Securities"). The Initial Securities will be convertible into shares of common stock, 50(cent) par value per share, of the Company (the "Common Stock") at the conversion price set forth in the Offering Circular dated October 9, 2001. The Initial Securities will be issued pursuant to an Indenture, dated as of October 15, 2001 (the "Indenture"), among the Company and The Bank of New York, as trustee (the "Trustee"). As an inducement to the Initial Purchasers to enter into the Purchase Agreement, the Company agrees with the Initial Purchasers, for the benefit of (i) the Initial Purchasers and (ii) the holders of the Initial Securities and the Common Stock issuable upon conversion of the Initial Securities (collectively, the "Securities") from time to time until such time as such Securities have been sold pursuant to a Shelf Registration Statement (as defined in Section 1 hereof) (each of the forgoing a "Holder" and collectively the "Holders"), as follows:

1. Shelf Registration. (a) The Company shall, at its cost, prepare and, as promptly as practicable (but in no event more than 90 days after the first date of original issuance of the Initial Securities (the "First Issue Date")) file with the Securities and Exchange Commission (the "Commission"), and thereafter use its best efforts to cause to be declared effective as soon as practicable (but in no event more than 180 days after the First Issue Date), a registration statement on Form S-3 (the "Shelf Registration Statement") relating to the offer and sale of the Transfer Restricted Securities (as defined in Section 5 hereof) by the Holders thereof from time to time in accordance with the methods of distribution set forth in the Shelf Registration Statement and Rule 415 under the Securities Act of 1933, as amended (the "Securities Act") (hereinafter, the "Shelf Registration"); provided, however, that no Holder (other than an Initial Purchaser) shall be entitled to have the Securities held by it covered by such Shelf Registration Statement unless such Holder agrees in writing to be bound by all the provisions of this Agreement applicable to such Holder.

(b) The Company shall use its best efforts to keep the Shelf Registration Statement continuously effective in order to permit the prospectus included therein (the "Prospectus") to be lawfully delivered by

the Holders of the relevant Securities, for a period of two years (or for such longer period if extended pursuant to Section 2(h) below) from the date of its effectiveness or such shorter period that will terminate when all the Securities covered by the Shelf Registration Statement (i) have been sold pursuant thereto or (ii) are no longer restricted securities (as defined in Rule 144(k) under the Securities Act, or any successor rule thereof), assuming for this purpose that the Holders thereof are not affiliates of the Company (in any such case, such period being called the "Shelf Registration Period"). The Company shall be deemed not to have used its best efforts to keep the Shelf Registration Statement effective during the requisite period if it voluntarily takes any action that would result in Holders of Securities covered thereby not being able to offer and sell such Securities during that period, unless (i) such action is required by applicable law, (ii) such action is based upon an opinion of counsel that such action is required by applicable law, or (iii) upon the occurrence of any event contemplated by Section 2(b)(v) below, such action is taken by the Company in good faith and for valid business reasons and the Company thereafter complies with the requirements of Section 2(h) hereof.

(c) Notwithstanding any other provisions of this Agreement to the contrary, the Company shall cause the Shelf Registration Statement and the Prospectus and any amendment or supplement thereto, as of the effective date of the Shelf Registration Statement, amendment or supplement, (i) to comply in all material respects with the applicable requirements of the Securities Act and the rules and regulations of the Commission and (ii) not to contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading.

(d) Each Holder of Transfer Restricted Securities (as defined in Section 5(d) below) wishing to sell Transfer Restricted Securities pursuant to the Shelf Registration Statement and Prospectus agrees to deliver written notice to the Company at least five (5) business days prior to any intended distribution of Transfer Restricted Securities under the effective Shelf Registration Statement; such notice (a "Notice and Questionnaire") shall be in such form and include such information as the Company shall reasonably request to amend the Shelf Registration Statement or supplement the Prospectus with respect to the intended distribution of Transfer Restricted Securities by the Holder. From and after the date the Shelf Registration Statement is declared effective, the Company shall, as promptly as practicable after the date a Notice and Questionnaire is delivered (and in any event within five (5) business days after such Notice and Questionnaire is delivered): (i) if required by applicable law, file with the Commission a post-effective amendment to the Shelf Registration Statement or prepare and, if required by applicable law, file a supplement to the Prospectus or a supplement or amendment to any document incorporated therein by reference or file any other document required under the Securities Act so that the Holder delivering such Notice and Questionnaire is named as a selling securityholder in the Shelf Registration Statement and the Prospectus in such a manner as to permit such Holder to deliver such Prospectus to purchasers of the Transfer Restricted Securities in accordance with applicable law and, if the Company shall file a post-effective amendment to the Shelf Registration Statement, use its reasonable best efforts to cause such post-effective amendment to be declared effective under the Securities Act as promptly as is practicable, but in any event by the date that is forty-five (45) days after the date such post-effective amendment is required by this clause to be filed; (ii) provide such Holder copies of any documents filed pursuant to Section 1(d)(i); and (iii) notify such Holder as promptly as practicable after the effectiveness under the Securities Act of any post-effective amendment filed pursuant to Section 1(d)(i); provided, however that if such Notice and Questionnaire is delivered
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during a period in which the use of the Prospectus is suspended pursuant to Section 2(h), the Company shall so inform the Holder delivering such Notice and Questionnaire and shall take the actions set forth in clauses (i), (ii) and (iii) above upon expiration of such suspension period. Any Holder who, subsequent to the date the Shelf Registration Statement is declared effective, provides a Notice and Questionnaire (whether or not such Holder had supplied a Notice and Questionnaire at the time the Shelf Registration Statement was declared effective) shall be named as a selling securityholder in the Shelf Registration Statement and the Prospectus in accordance with the requirements of this Section 1(d).

2. Registration Procedures. In connection with the Shelf Registration

contemplated by Section 1 hereof, the following provisions shall apply:

(a) The Company shall (i) furnish to each Initial Purchaser, prior to the filing thereof with the Commission, a copy of the Shelf Registration Statement and each amendment thereof and each supplement, if any, to the prospectus included therein and, in the event that an Initial Purchaser (with respect to any portion of an unsold allotment from the original offering) is participating in the Shelf Registration Statement, shall use its best efforts to reflect in each such document, when so filed with the Commission, such comments as such Initial Purchaser reasonably may propose; and (ii) include the names of the Holders who propose to sell Securities pursuant to the Shelf Registration Statement as selling security holders.

(b) The Company shall give written notice to the Initial Purchasers and the Holders of the Securities (which notice pursuant to clauses (ii)-(v) hereof shall be accompanied by an instruction to suspend the use of the Prospectus until the requisite changes have been made):

(i) when the Shelf Registration Statement or any amendment thereto has been filed with the Commission and when the Shelf Registration Statement or any post-effective amendment thereto has become effective;

(ii) of any request by the Commission for amendments or supplements to the Shelf Registration Statement or the prospectus included therein or for additional information;

(iii) of the issuance by the Commission of any stop order suspending the effectiveness of the Shelf Registration Statement or the initiation of any proceedings for that purpose;

(iv) of the receipt by the Company or its legal counsel of any notification with respect to the suspension of the qualification of the Securities for sale in any jurisdiction or the initiation or threatening of any proceeding for such purpose; and

(v) of the happening of any event that requires the Company to make changes in the Shelf Registration Statement or the Prospectus in order that the Shelf Registration Statement or the Prospectus does not contain an untrue statement of a material fact nor omit to state a material fact required to be stated therein or necessary to make the statements therein (in the case of the Prospectus, in light of the circumstances under which they were made) not misleading.

(c) The Company shall make every reasonable effort to obtain the withdrawal at the earliest possible time, of any order suspending the effectiveness of the Shelf Registration Statement.

(d) The Company shall furnish to each Holder of Securities included within the coverage of the Shelf Registration, without charge, at least one copy of the Shelf Registration Statement and any post-effective amendment thereto, including financial statements and schedules, and, if the Holder so requests in writing, all exhibits thereto (including those, if any, incorporated by reference).

(e) The Company shall, during the Shelf Registration Period, deliver to each Holder of Securities included within the coverage of the Shelf Registration, without charge, as many copies of the Prospectus (including each preliminary prospectus) included in the Shelf Registration Statement and any amendment or supplement thereto as such person may reasonably request. The Company consents, subject to the provisions of this Agreement, to the use of the Prospectus or any amendment or supplement thereto by each of the selling Holders of the Securities in connection with the offering and sale of the Securities covered by the Prospectus, or any amendment or supplement thereto, included in the Shelf Registration Statement.

(f) Prior to any public offering of the Securities pursuant to the Shelf Registration Statement, the Company shall register or qualify or cooperate with the Holders of the Securities included therein and their respective counsel in connection with the registration or qualification of the Securities for offer and sale under the securities or "blue sky" laws of such states of the United States as any Holder of the Securities reasonably requests in writing and do any and all other acts or things necessary or advisable to enable the offer and sale in such jurisdictions of the Securities covered by such Registration Statement; provided, however, that the Company shall not be required to (i) qualify generally to do business in any jurisdiction where it is not then so qualified or (ii) take any action which would subject it to general service of process or to taxation in any jurisdiction where it is not then so subject.

(g) The Company shall cooperate with the Holders of the Securities to facilitate the timely preparation and delivery of certificates representing the Securities to be sold pursuant to any Registration Statement free of any restrictive legends and in such denominations and registered in such names as the Holders may request a reasonable period of time prior to sales of the Securities pursuant to the Shelf Registration Statement.

(h) Upon the occurrence of any event contemplated by paragraphs (ii) through (v) of Section 2(b) above during the period for which the Company is required to maintain an effective Shelf Registration Statement, the Company shall as required hereby prepare and file a post-effective amendment to the Shelf Registration Statement or an amendment or supplement to the Prospectus and any other required document so that, as thereafter delivered to Holders or purchasers of Securities, the Prospectus will not contain an untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; provided, however, that the Company may delay filing and distributing any such supplement or amendment (and continue the suspension of the use of the Prospectus) if the Company determines in good faith that such supplement or amendment would, in the reasonable judgement of the Company, (i) interfere with or affect the negotiation or completion of a transaction that is being contemplated by the Company or (ii) involve initial or continuing disclosure obligations that are not in the best interests of the Company's stockholders at such time; provided, further, that neither such delay nor such suspension shall extend for a period of more than 45 consecutive days or an aggregate of 120 days in any twelve-month period. If the Company notifies the Initial Purchasers and the Holders in accordance with paragraphs (ii) through (v) of Section 2(b) above to suspend the use of the Prospectus until the requisite changes to the Prospectus have been made, then the Initial Purchasers and the Holders shall suspend use of such prospectus, and the period of effectiveness of the Shelf Registration Statement provided for in Section 1(b) above shall be extended by the number of days from and including the date of the giving of such notice to and including the date when the Initial Purchasers and the Holders shall have received such amended or supplemented prospectus pursuant to this Section 2(h).

(i) Not later than the effective date of the Shelf Registration Statement, the Company will provide CUSIP numbers for the Initial Securities and the Common Stock registered under the Shelf Registration Statement, and provide the Trustee with printed certificates for the Initial Securities, in a form eligible for deposit with The Depository Trust Company.

(j) The Company will comply with all rules and regulations of the Commission to the extent and so long as they are applicable to the Shelf Registration and will make generally available to its security holders (or otherwise provide in accordance with Section 11(a) of the Securities Act) an earnings statement satisfying the provisions of Section 11(a) of the Securities Act, no later than 45 days after the end of a 12-month period (or 90 days, if such period is a fiscal year) beginning with the first month of the Company's first fiscal quarter commencing after the effective date of the Shelf Registration Statement, which statement shall cover such 12-month period.

(k) The Company shall cause the Indenture to be qualified under the Trust Indenture Act of 1939, as amended, (the "Trust Indenture Act") in a timely manner and containing such changes, if any, as shall be necessary for such qualification. In the event that such qualification would require the appointment of a new trustee under the Indenture, the Company shall appoint a new trustee thereunder pursuant to the applicable provisions of the Indenture.

(l) The Company may require each Holder of Securities to be sold pursuant to the Shelf Registration Statement to furnish to the Company such information regarding the Holder and the

distribution of the Securities as the Company may from time to time reasonably require for inclusion in the Shelf Registration Statement, and the Company may exclude from such registration the Securities of any Holder that unreasonably fails to furnish such information within a reasonable time after receiving such request.

(m) The Company shall enter into such customary agreements (including, if requested, an underwriting agreement in customary form) and take all such other actions, if any, as any Holder shall reasonably request in order to facilitate the disposition of the Securities pursuant to the Shelf Registration.

(n) The Company shall (i) make reasonably available for inspection by the Holders, any underwriter participating in any disposition pursuant to the Shelf Registration Statement and any attorney, accountant or other agent retained by the Holders or any such underwriter, all relevant financial and other records, pertinent corporate documents and properties of the Company and (ii) cause the Company's officers, directors, employees, accountants and auditors to supply all relevant information reasonably requested by the Holders or any such underwriter, attorney, accountant or agent in connection with the Shelf Registration Statement, in each case, as shall be reasonably necessary to enable such persons, to conduct a reasonable investigation within the meaning of Section 11 of the Securities Act; provided, however, that the foregoing inspection and information gathering shall be coordinated on behalf of the Initial Purchasers by you and on behalf of the other parties, by one counsel designated by and on behalf of such other parties as described in Section 3 hereof.

(o) In the event of an underwritten offering, the Company shall cause (i) its counsel to deliver an opinion and updates thereof relating to the Securities in customary form addressed to such Holders and the managing underwriters, if any, thereof, and dated, in the case of the initial opinion, the effective date of such Shelf Registration Statement (it being agreed that the matters to be covered by such opinion shall include, without limitation, the due incorporation and good standing of the Company and its subsidiaries; the qualification of the Company and its subsidiaries to transact business as foreign corporations; the due authorization, execution and delivery of the relevant agreement of the type referred to in Section 2(m) hereof; the due authorization, execution, authentication and issuance, and the validity and enforceability, of the Securities; the absence of material legal or governmental proceedings involving the Company and its subsidiaries; the absence of material governmental approvals required to be obtained in connection with the Shelf Registration Statement, the offering and sale of the Securities, or any agreement of the type referred to in Section 2(m) hereof; the compliance as to form of the Shelf Registration Statement and any documents incorporated by reference therein and of the Indenture with the requirements of the Securities Act and the Trust Indenture Act, respectively; and, as of the date of the opinion and as of the effective date of the Shelf Registration Statement or most recent post-effective amendment thereto, as the case may be, the absence from the Shelf Registration Statement and the prospectus included therein, as then amended or supplemented, and from any documents incorporated by reference therein of an untrue statement of a material fact or the omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading (in the case of any such documents, in the light of the circumstances existing at the time that such documents were filed with the Commission under the Exchange Act of 1934, as amended (the "Exchange Act")); (ii) its officers to execute and deliver all customary documents and certificates and updates thereof requested by any underwriters of the Securities; and (iii) its independent public accountants and the independent public accountants with respect to any other entity for which financial information is provided in the Shelf Registration Statement to provide to the selling Holders of the applicable Securities and any underwriter therefor a comfort letter in customary form and covering matters of the type customarily covered in comfort letters in connection with primary underwritten offerings, subject to receipt of appropriate documentation as contemplated, and only if permitted, by Statement of Auditing Standards No. 72.

(p) The Company will use its reasonable best efforts to (a) if the Initial Securities have been rated prior to the initial sale of such Initial Securities, confirm such ratings will apply to the Securities covered by a Registration Statement, or (b) if the Initial Securities were not previously rated, cause the Securities covered by a Registration Statement to be rated with the appropriate rating agencies, if so requested by

holders of a majority in aggregate principal amount of Securities covered by the Shelf Registration Statement, or by the managing underwriters, if any.

(q) In the event that any broker-dealer registered under the Exchange Act shall underwrite any Securities or participate as a member of an underwriting syndicate or selling group or "assist in the distribution" (within the meaning of the Conduct Rules (the "Rules") of the National Association of Securities Dealers, Inc. ("NASD")) thereof, whether as a Holder of such Securities or as an underwriter, a placement or sales agent or a broker or dealer in respect thereof, or otherwise, the Company will assist such broker-dealer in complying with the requirements of such Rules, including, without limitation, by: (i) if such Rules, including Rule 2720, shall so require, engaging a "qualified independent underwriter" (as defined in Rule 2720) to participate in the preparation of the Shelf Registration Statement relating to such Securities, to exercise usual standards of due diligence in respect thereto and, if any portion of the offering contemplated by such Registration Statement is an underwritten offering or is made through a placement or sales agent, to recommend the yield of such Securities; (ii) indemnifying any such qualified independent underwriter to the extent of the indemnification of underwriters provided in Section 5 hereof; and (iii) providing such information to such broker-dealer as may be required in order for such broker-dealer to comply with the requirements of the Rules.

(r) The Company will use its best efforts to cause all Underlying Shares to be listed on the New York Stock Exchange.

(s) The Company shall use its best efforts to take all other steps necessary to effect the registration of the Securities covered by a Registration Statement contemplated hereby.

3. Registration Expenses. (a) All expenses incident to the Company's performance of and compliance with this Agreement will be borne by the Company, regardless of whether a Registration Statement is ever filed or becomes effective, including without limitation:

(i) all registration and filing fees and expenses;

(ii) all fees and expenses of compliance with federal securities and state "blue sky" or securities laws;

(iii) all expenses of printing (including printing certificates for the Securities to be issued and printing of Prospectuses), messenger and delivery services and telephone;

(iv) all fees and disbursements of counsel for the Company;

(v) all application and filing fees in connection with listing the Securities on a national securities exchange or automated quotation system pursuant to the requirements hereof; and

(vi) all fees and disbursements of independent certified public accountants of the Company (including the expenses of any special audit and comfort letters required by or incident to such performance).

The Company will bear its internal expenses (including, without limitation, all salaries and expenses of its officers and employees performing legal or accounting duties), the expenses of any annual audit and the fees and expenses of any person, including special experts, retained by the Company.

(b) In connection with the Shelf Registration Statement required by this Agreement, the Company will reimburse the Initial Purchasers and the Holders of Securities covered by the Shelf Registration Statement, for the reasonable fees and disbursements of not more than one counsel, designated by the Holders of a majority in principal amount of the Securities covered by the Shelf Registration Statement (provided that Holders of Common Stock issued upon the conversion of the Initial Securities shall be

deemed to be Holders of the aggregate principal amount of Initial Securities from which such Common Stock was converted) to act as counsel for the Holders in connection therewith.

4. Indemnification. (a) The Company agrees to indemnify and hold harmless each Holder and each person, if any, who controls such Holder within the meaning of the Securities Act or the Exchange Act (each Holder, and such controlling persons are referred to collectively as the "Indemnified Parties") from and against any losses, claims, damages or liabilities or any actions in respect thereof (including, but not limited to, any losses, claims, damages, liabilities or actions relating to purchases and sales of the Securities) to which each Indemnified Party may become subject under the Securities Act, the Exchange Act or otherwise, insofar as such losses, claims, damages, liabilities or actions arise out of or are based upon any untrue statement or alleged untrue statement of a material fact contained in the Shelf Registration Statement or prospectus including any document incorporated by reference therein, or in any amendment or supplement thereto or in any preliminary prospectus relating to the Shelf Registration, or arise out of, or are based upon, the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and shall reimburse, as incurred, the Indemnified Parties for any legal or other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage, liability or action in respect thereof; provided, however, that
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(i) the Company shall not be liable in any such case to the extent that such loss, claim, damage or liability arises out of or is based upon any untrue statement or alleged untrue statement or omission or alleged omission made in the Shelf Registration Statement or prospectus or in any amendment or supplement thereto or in any preliminary prospectus relating to the Shelf Registration in reliance upon and in conformity with information pertaining to such Holder and furnished to the Company by or on behalf of such Holder and (ii) with respect to any untrue statement or omission or alleged untrue statement or omission made in any preliminary prospectus relating to the Shelf Registration Statement, the indemnity agreement contained in this subsection (a) shall not inure to the benefit of any Holder from whom the person asserting any such losses, claims, damages or liabilities purchased the Securities concerned, to the extent that a prospectus relating to such Securities was required to be delivered by such Holder under the Securities Act in connection with such purchase and any such loss, claim, damage or liability of such Holder results from the fact that there was not sent or given to such person, at or prior to the written confirmation of the sale of such Securities to such person, a copy of the final prospectus if the Company had previously furnished copies thereof to such Holder; provided
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further, however, that this indemnity agreement will be in addition to any
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liability which the Company may otherwise have to such Indemnified Party. In the event of an underwritten public offering, the Company shall also enter into a customary form of underwriting agreement.

(b) Each Holder will indemnify and hold harmless the Company, its officers and directors and each person, if any, who controls the Company within the meaning of the Securities Act or the Exchange Act from and against any losses, claims, damages or liabilities or any actions in respect thereof, to which the Company or any such controlling person may become subject under the Securities Act, the Exchange Act or otherwise, insofar as such losses, claims, damages, liabilities or actions arise out of or are based upon any untrue statement or alleged untrue statement of a material fact contained in the Shelf Registration Statement or prospectus or in any amendment or supplement thereto or in any preliminary prospectus relating to the Shelf Registration, or arise out of or are based upon the omission or alleged omission to state therein a material fact necessary to make the statements therein not misleading, but in each case only to the extent that the untrue statement or omission or alleged untrue statement or omission was made in reliance upon and in conformity with information pertaining to such Holder and furnished to the Company by or on behalf of such Holder; and, subject to the limitation set forth immediately preceding this clause, shall reimburse, as incurred, the Company for any legal or other expenses reasonably incurred by the Company or any such controlling person in connection with investigating or defending any loss, claim, damage, liability or action in respect thereof. This indemnity agreement will be in addition to any liability which such Holder may otherwise have to the Company or any of its controlling persons.

(c) Promptly after receipt by an indemnified party under this Section 4 of notice of the commencement of any action or proceeding (including a governmental investigation), such indemnified party will, if a claim in respect thereof is to be made against the indemnifying party under this Section 4, notify the indemnifying party of the commencement thereof; but the omission so to notify the indemnifying

party will not, in any event, relieve the indemnifying party from any obligations to any indemnified party other than the indemnification obligation provided in paragraph (a) or (b) above. In case any such action is brought against any indemnified party, and it notifies the indemnifying party of the commencement thereof, the indemnifying party will be entitled to participate therein and, to the extent that it may wish, jointly with any other indemnifying party similarly notified, to assume the defense thereof, with counsel reasonably satisfactory to such indemnified party (who shall not, except with the consent of the indemnified party, be counsel to the indemnifying party), and after notice from the indemnifying party to such indemnified party of its election so to assume the defense thereof the indemnifying party will not be liable to such indemnified party under this Section 4 for any legal or other expenses, other than reasonable costs of investigation, subsequently incurred by such indemnified party in connection with the defense thereof. No indemnifying party shall, without the prior written consent of the indemnified party, effect any settlement of any pending or threatened action in respect of which any indemnified party is or could have been a party and indemnity could have been sought hereunder by such indemnified party unless such settlement (i) includes an unconditional release of such indemnified party from all liability on any claims that are the subject matter of such action, and (ii) does not include a statement as to or an admission of fault, culpability or a failure to act by or on behalf of any indemnified party.

(d) If the indemnification provided for in this Section 4 is unavailable or insufficient to hold harmless an indemnified party under subsections (a) or (b) above, then each indemnifying party shall contribute to the amount paid or payable by such indemnified party as a result of the losses, claims, damages or liabilities (or actions in respect thereof) referred to in subsection (a) or (b) above in such proportion as is appropriate to reflect the relative fault of the indemnifying party or parties on the one hand and the indemnified party on the other in connection with the statements or omissions that resulted in such losses, claims, damages or liabilities (or actions in respect thereof) as well as any other relevant equitable considerations. The relative fault of the parties shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company on the one hand or such Holder or such other indemnified party, as the case may be, on the other, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The amount paid by an indemnified party as a result of the losses, claims, damages or liabilities referred to in the first sentence of this subsection (d) shall be deemed to include any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any action or claim which is the subject of this subsection (d). Notwithstanding any other provision of this Section 4(d), the Holders shall not be required to contribute any amount in excess of the amount by which the net proceeds received by such Holders from the sale of the Securities pursuant to the Shelf Registration Statement exceeds the amount of damages which such Holders have otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. For purposes of this paragraph (d), each person, if any, who controls such indemnified party within the meaning of the Securities Act or the Exchange Act shall have the same rights to contribution as such indemnified party and each person, if any, who controls the Company within the meaning of the Securities Act or the Exchange Act shall have the same rights to contribution as the Company.

(e) The agreements contained in this Section 4 shall survive the sale of the Securities pursuant to the Shelf Registration Statement and shall remain in full force and effect, regardless of any termination or cancellation of this Agreement or any investigation made by or on behalf of any indemnified party.

5. Additional Interest Under Certain Circumstances. (a) Additional interest (the "Additional Interest") with respect to the Initial Securities shall be assessed as follows if any of the following events occur (each such event in clauses (i) through (iii) below being herein called a "Registration Default"):

(i) the Shelf Registration Statement has not been filed with the Commission by the 90th day after the First Issue Date;

(ii) the Shelf Registration Statement has not been declared effective by the Commission by the 180th day after the First Issue Date;

(iii) the Company fails with respect to a Holder of Notes that supplies the Notice and Questionnaire described in Section 1(d) above to amend or supplement the Shelf Registration Statement in the manner set forth in Section 1(d) above;

(iv) the Shelf Registration Statement is declared effective by the Commission, but (A) the Shelf Registration Statement thereafter ceases to be effective or (B) the Shelf Registration Statement or the Prospectus ceases to be usable in connection with resales of Transfer Restricted Securities during the periods specified herein because the Company suspends the effectiveness of such Shelf Registration Statement beyond the periods set forth in Section 2(h) above; or

(v) the Shelf Registration Statement is declared effective by the Commission, but the Prospectus ceases to be usable in connection with resales of Transfer Restricted Securities during the periods specified herein and the Company fails to cure by filing a post-effective amendment or report pursuant to the Exchange Act.

Each of the foregoing will constitute a Registration Default whatever the reason for any such event and whether it is voluntary or involuntary or is beyond the control of the Company or pursuant to operation of law or as a result of any action or inaction by the Commission.

Additional Interest shall accrue on the Initial Securities over and above the interest set forth in the title of the Initial Securities from and including the date on which any such Registration Default shall occur to but excluding the date on which all such Registration Defaults have been cured, at a rate of 0.50% per annum (the "Additional Interest Rate").

(b) A Registration Default referred to in Section 5(a)(v) hereof shall be deemed not to have occurred and be continuing in relation to the Shelf Registration Statement or the related prospectus if such Registration Default has occurred solely as a result of the filing of a post-effective amendment to the Shelf Registration Statement to incorporate annual audited financial information with respect to the Company where such post-effective amendment is not yet effective and needs to be declared effective to permit Holders to use the related prospectus; *provided*, *however*, that if such Registration Default occurs for a continuous period in excess of 30 days, Additional Interest shall be payable in accordance with the above paragraph from the day such Registration Default occurs until such Registration Default is cured.

(c) Any amounts of Additional Interest due pursuant to Section 5(a) will be payable in cash on the regular interest payment dates with respect to the Initial Securities. The amount of Additional Interest will be determined by multiplying the applicable Additional Interest Rate by the principal amount of the Initial Securities (or, in the case of Notes that have been converted into

Common Stock, by the product of (x) the then applicable Conversion Price (as defined in the Indenture) of such shares of Common Stock (or, if no Notes are then outstanding, the Conversion Price that would be in effect if any Notes were then outstanding) and the number of such shares of Common Stock), further multiplied by a fraction, the numerator of which is the number of days such Additional Interest Rate was applicable during such period (determined on the basis of a 360-day year comprised of twelve 30-day months), and the denominator of which is 360.

(d) "Transfer Restricted Securities" means each Security until (i) the date on which such Security has been effectively registered under the Securities Act and disposed of in accordance with the Shelf Registration Statement or (ii) the date on which such Security is distributed to the public pursuant to Rule 144 under the Securities Act or is saleable pursuant to Rule 144(k) under the Securities Act.

6. Rules 144 and 144A. The Company shall use its best efforts to file the reports required to be filed by it under the Securities Act and the Exchange Act in a timely manner and, if at any time the Company is not required to file such reports, it will, upon the request of any Holder, make publicly available other information so long as necessary to permit sales of their securities pursuant to Rules 144 and

144A. The Company covenants that it will take such further action as any Holder may reasonably request, all to the extent required from time to time to enable such Holder to sell Transfer Restricted Securities without registration under the Securities Act within the limitation of the exemptions provided by Rules 144 and 144A (including the requirements of Rule 144A(d)(4)). The Company will provide a copy of this Agreement to prospective purchasers of Securities identified to the Company by the Initial Purchasers upon request. Upon the request of any Holder, the Company shall deliver to such Holder a written statement as to whether it has complied with such requirements, unless such a statement has been included in the Company's most recent report required to be filed pursuant to Section 13 or 15(d) under the Exchange Act. Notwithstanding the foregoing, nothing in this Section 6 shall be deemed to require the Company to register any of its securities pursuant to the Exchange Act.

7. Underwritten Registrations. If any of the Transfer Restricted Securities covered by the Shelf Registration are to be sold in an underwritten offering, the investment banker or investment bankers and manager or managers that will administer the offering ("Managing Underwriters") will be selected by the holders of a majority in aggregate principal amount of such Transfer Restricted Securities to be included in such offering (provided that holders of Common Stock issued upon conversion of the Initial Securities shall not be deemed holders of Common Stock, but shall be deemed to be holders of the aggregate principal amount of Initial Securities from which such Common Stock was converted).

No person may participate in any underwritten registration hereunder unless such person (i) agrees to sell such person's Transfer Restricted Securities on the basis reasonably provided in any underwriting arrangements approved by the persons entitled hereunder to approve such arrangements and (ii) completes and executes all questionnaires, powers of attorney, indemnities, underwriting agreements and other documents reasonably required under the terms of such underwriting arrangements.

8. Miscellaneous.

(a) Remedies. The Company acknowledges and agrees that any failure by the Company to comply with its obligations under Section 1 hereof may result in material irreparable injury to the Initial Purchasers or the Holders for which there is no adequate remedy at law, that it will not be possible to measure damages for such injuries precisely and that, in the event of any such failure, the Initial Purchasers or any Holder may obtain such relief as may be required to specifically enforce the Company's obligations under Sections 1 hereof. The Company further agrees to waive the defense in any action for specific performance that a remedy at law would be adequate.

(b) No Inconsistent Agreements. The Company will not on or after the date of this Agreement enter into any agreement with respect to its securities that is inconsistent with the rights granted to the Holders in this Agreement or otherwise conflicts with the provisions hereof in any material respect. The rights granted to the Holders hereunder do not in any way conflict with and are not inconsistent with the rights granted to the holders of the Company's securities under any agreement in effect on the date hereof.

(c) Amendments and Waivers. The provisions of this Agreement may not be amended, modified or supplemented, and waivers or consents to departures from the provisions hereof may not be given, except by the Company and the written consent of the holders of a majority in principal amount of the Securities affected by such amendment, modification, supplement, waiver or consents (provided that holders of Common Stock issued upon conversion of Initial Securities shall not be deemed holders of Common Stock, but shall be deemed to be holders of the aggregate principal amount of Initial Securities from which such Common Stock was converted). Without the consent of the Holder of each Initial Security, however, no modification may change the provisions relating to the payment of Additional Interest.

(d) Notices. All notices and other communications provided for or permitted hereunder shall be made in writing by hand delivery, first-class mail, facsimile transmission, or air courier which guarantees overnight delivery:

(1) if to a Holder of the Securities, at the most current address given by such Holder to the Company.

(2) if to the Initial Purchasers;

Credit Suisse First Boston Corporation
Eleven Madison Avenue
New York, NY 10010-3629
Fax No.: (212) 325-8278
Attention: Transactions Advisory Group

with a copy to:

Dewey Ballantine LLP
1301 Avenue of the Americas
New York, New York 10019
Fax No.: (212) 259-6333
Attention: Morton A. Pierce

(3) if to the Company, by mail, at its address as follows:

J. C. Penney Company, Inc.
P.O. Box 10001
Dallas, Texas 75301-0001
Attention: General Counsel

if to the Company, by hand, facsimile or overnight courier, to its address as follows:

J. C. Penney Company, Inc.
6501 Legacy Drive
Plano, Texas 75024-3698
Fax No.: (972) 431 - 1977
Attention: General Counsel

with a copy in either case to:

J. C. Penney Company, Inc.
6501 Legacy Drive
Plano, Texas 75024-3698
Fax No.: (972) 431 - 2044
Attention: Treasurer

All such notices and communications shall be deemed to have been duly given: at the time delivered by hand, if personally delivered; three business days after being deposited in the mail, postage prepaid, if mailed; when receipt is acknowledged by recipient's facsimile machine operator, if sent by facsimile transmission; and on the day delivered, if sent by overnight air courier guaranteeing next day delivery.

(e) Third Party Beneficiaries. The Holders shall be third party beneficiaries to the agreements made hereunder between the Company, on the one hand, and the Initial Purchasers, on the other hand, and

shall have the right to enforce such agreements directly to the extent they may deem such enforcement necessary or advisable to protect their rights or the rights of Holders hereunder.

(f) Successors and Assigns. This Agreement shall be binding upon the Company and its successors and assigns.

(g) Counterparts. This Agreement may be executed in any number of counterparts and by the parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement.

(h) Headings. The headings in this Agreement are for convenience of reference only and shall not limit or otherwise affect the meaning hereof.

(i) Governing Law. THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAWS.

By the execution and delivery of this Agreement, the Company submits to the nonexclusive jurisdiction of any federal or state court in the State of New York.

(j) Severability. If any one or more of the provisions contained herein, or the application thereof in any circumstance, is held invalid, illegal or unenforceable, the validity, legality and enforceability of any such provision in every other respect and of the remaining provisions contained herein shall not be affected or impaired thereby.

(k) Securities Held by the Company. Whenever the consent or approval of Holders of a specified percentage of principal amount of Securities is required hereunder, Securities held by the Company or its affiliates (other than subsequent Holders of Securities if such subsequent Holders are deemed to be affiliates solely by reason of their holdings of such Securities) shall not be counted in determining whether such consent or approval was given by the Holders of such required percentage.

[Remainder of Page Intentionally Left Blank; Signature Page Follows]

If the foregoing is in accordance with your understanding of our agreement, please sign and return to the Company a counterpart hereof, whereupon this instrument, along with all counterparts, will become a binding agreement among the several Initial Purchasers and the Company in accordance with its terms.

Very truly yours,

J. C. PENNEY COMPANY, INC.

by

/s/ Robert B. Cavanaugh

Name: Robert B. Cavanaugh
Title: Executive Vice President
and Chief Financial Officer

Theforegoing Registration Rights Agreement is hereby confirmed and accepted as of the date first above written.

CREDIT SUISSE FIRST BOSTON CORPORATION
J. P. MORGAN SECURITIES INC.
SALOMON SMITH BARNEY INC.
FIRST UNION SECURITIES, INC.
HSBC SECURITIES (USA) INC.
ROBERTSON STEPHENS, INC.
BEAR, STEARNS & CO. INC.
LEHMAN BROTHERS INC.
FAHNESTOCK & CO. INC.
THE WILLIAMS CAPITAL GROUP, L.P.
Acting on behalf of themselves and as the
Representatives of the several Purchasers.

By: CREDIT SUISSE FIRST BOSTON CORPORATION

by

/s/ David Russell

Name: David Russell
Title: Managing Director

EXHIBIT 10(ii)(w)

AMENDMENT NO. 2
J. C. PENNEY COMPANY, INC.
1999 SEPARATION ALLOWANCE PROGRAM
FOR
PROFIT-SHARING MANAGEMENT ASSOCIATES

WHEREAS, the Board of Directors authorized an Agreement and Plan of Merger (the "Merger Agreement") between J. C. Penney Company, Inc. ("Company"), J. C. Penney Holdings, Inc., a Delaware corporation ("Holdings"), and JCP Merger Sub, Inc., a Delaware corporation and wholly-owned subsidiary of the Holdings ("Merger Sub");

WHEREAS, pursuant to the Merger Agreement, Merger Sub will merge with and into Company, with Company surviving as a wholly-owned subsidiary of Holdings (the "Merger");

WHEREAS, pursuant to the Merger, Holdings will amend and restate its certificate of incorporation to inter alia change its name to "J. C. Penney Company, Inc.";

WHEREAS, pursuant to the Merger, Company will amend and restate its certificate of incorporation to inter alia, change its name to "J. C. Penney Corporation, Inc.";

NOW, THEREFORE, as authorized by the Board, the J. C. Penney Company, Inc. 1999 Separation Allowance Program for Profit-Sharing Management Associates ("SAP"), as amended on September 9, 1999, be, and it hereby is, further amended, effective as of the effective time of the Merger as set forth in the Merger Agreement (expected to be January 27, 2002), as follows:

1. The name of the program shall be the "J. C. Penney Corporation, Inc. 1999 Separation Allowance Program".

2. The definition of "Company" in Section 2.01 is amended in its entirety to read as follows: "<u>Company</u>" shall mean J. C. Penney Corporation, Inc., a Delaware corporation and any successor corporation.

3. All references in the definition of "<u>Change of Control</u>" to "Company" in Section 2.01 of the SAP are deleted and replaced with "Parent Company."

4. "<u>Parent Company</u>" is added as a defined term to Section 2.01 of the SAP, as follows: "<u>Parent Company</u>" shall mean J. C. Penney Holdings, Inc. until such time as it changes its name to J. C. Penney Company, Inc., at which time it shall mean J. C. Penney Company, Inc., and any successor corporation.

In all other respects the SAP, as amended, remains unchanged and in full force and effect.

DATED this 25th day of January 2002.

J. C. Penney Company, Inc.

/s/Charles R. Lotter

Charles R. Lotter
Executive Vice President,
Secretary and General Counsel

EXHIBIT 10(ii)(x)

J. C. PENNEY COMPANY, INC.

SUPPLEMENTAL TERM LIFE INSURANCE PLAN

FOR MANAGEMENT PROFIT-SHARING ASSOCIATES

ADOPTED EFFECTIVE JANUARY 1, 2002

J. C. PENNEY COMPANY, INC.
SUPPLEMENTAL TERM LIFE INSURANCE PLAN
FOR MANAGEMENT PROFIT-SHARING ASSOCIATES

TABLE OF CONTENTS

ARTICLE 1

INTRODUCTION

1.1 Purpose Of Plan. The J. C. Penney Company, Inc. Supplemental Term Life Insurance Plan For Management Profit-Sharing Associates (the "Plan") is an "employee welfare benefit plan" pursuant to ERISA. The purpose of the Plan is to permit eligible retired management Associates of J.C. Penney Company, Inc. and certain designated subsidiaries who elect to participate to purchase group term life insurance benefits directly from the Insurer (as hereinafter defined). This document, together with the Policies (as hereinafter defined) will be construed as a single group term life insurance plan. Capitalized terms used throughout the Plan have the meanings set forth in Article 2 unless the context clearly requires otherwise or another definition is expressly assigned to the term in a particular usage.

1.2 Plan Status. The Plan is intended to satisfy the requirements of an after-tax option pursuant to the cafeteria plan requirements under Section 125(d) of the Code.

1.3 Suppression Of Prior Plan. This document is effective January 1, 2002 except as otherwise provided herein. All prior versions of the Plan document are hereby suppressed or superseded. The Plan was originally adopted effective January 1, 1978.

ARTICLE 2

DEFINITIONS

2.1 "Administrator" means the Benefits Administration Committee of the

Company or such other person or committee as may be appointed from time to time by the Human Resources Committee of the Management Committee of the Company or any successor thereto ("HR Committee").

2.2 "Annual Earnings for Benefits" means the greater of (i) the Participant's "Annual Earnings for Benefits" for purposes of the Company-Paid Plan on the Participant's retirement date or (ii) for a retired Participant who is reemployed by a Participating Employer and who becomes eligible for the Company-Paid Plan and later loses eligibility under the Company-Paid Plan, such retired Participant's Annual Earnings for Benefits at such time as the Participant lost eligibility under the Company-Paid Plan.

2.3 "Associate" means a person who is employed by a Participating Employer and paid through a participating employer's payroll system. The term "Associate" does not include a person who is classified as an independent contractor by the Participating Employer for purposes of federal income tax reporting and withholding. The designation of an "Associate" by the Company shall be final and not subject to any redetermination of employment classification by any taxing authority such as the Internal Revenue Service or any other governmental authority or agency. The term "Associate" does not include any person who performs services for a Participating Employer as a "leased employee" within the meaning of Code Section 414 (n), or who performs services through an agreement with a leasing organization.

2.4 "Associate-Paid Plan" means the J.C. Penney Company, Inc. Group Term Life Insurance Plan, as amended from time to time, and/or the J.C. Penney Company, Inc. Associate-Paid Group Term Life Insurance Plan, as amended from time to time.

2.5 "Code" means the Internal Revenue Code of 1986, as amended and the regulations promulgated thereunder. Reference to any section or subsection of the Code includes reference to any comparable or succeeding provisions of any legislation, that amends, supplements or replaces such section or subsection.

2.6 "Company" means J. C. Penney Company, Inc., a Delaware corporation, or any successor corporation.

2.7 "Company-Paid Plan" means the J. C. Penney Company, Inc. Group Term Life Insurance Plan, as amended from time to time.

2.8 "Date of Disability", "Disabled", and "Disability" have the meanings set forth in the Company-Paid Plan.

2.9 "ERISA" means the Employee Retirement Income Security Act of 1974, as amended, and the regulations promulgated thereunder. Reference to any section or subsection of ERISA includes reference to any comparable or succeeding provisions of any legislation, that amends, supplements or replaces such section or subsection.

2.10 "Insurer" means the insurance company or companies issuing the Policy or Policies.

2.11 "MSRP Retiree" means a former Associate who retired from a Participating Employer and who is eligible to receive Company-paid life insurance coverage under the terms of the Supplemental Retirement Program for Management Profit-Sharing Associates of J.C. Penney Company, Inc., as amended from time to time. The term "MSRP Retiree" also includes any additional former Associate so designated from time to time in the discretion of the Board of Directors of the Participating Employer or the Benefits Administration Committee or the HR Committee of the Company in accordance with the provisions of the

Supplemental Retirement Program.

2.12 "Participant" means an MSRP Retiree who has satisfied the eligibility requirements of Article 3, has purchased life insurance coverage under the terms of the Plan, and whose coverage under the Plan has not terminated.

2.13 "Participating Employer" means the Company and any subsidiary or affiliate of the Company which is designated as a Participating Employer under the Plan by the HR Committee, excluding, however, any division of the Company or of a subsidiary or affiliate that is designated by the HR Committee as ineligible to participate in the Plan. Appendix I contains a list of the Participating Employers currently participating in the Plan that have adopted the Plan pursuant to Article 7.

2.14 "Plan" means the J.C. Penney Company, Inc. Supplemental Group Term Life Insurance Plan for Management Profit-Sharing Associates, as set forth herein and as may be amended from time to time.

2.15 "Policy" or "Policies" means the life insurance policies through which Plan benefits are provided, which are incorporated by reference into the Plan.

2.16 "Plan Year" means the period with respect to which the records of the Plan are maintained, which will be the 12-month period beginning on January 1 and ending on December 31.

2.17 "Supplemental Retirement Program" means the Supplemental Retirement Program for Management Profit-Sharing Associates of J. C. Penney Company, Inc., as amended from time to time.

ARTICLE 3

PARTICIPATION

3.1 Eligibility For Coverage. An Associate who qualifies as an MSRP Retiree will be eligible to purchase coverage under the Plan, effective upon retirement, provided the MSRP Retiree was a participant in the Associate-Paid Plan immediately prior to retirement, but only if the MSRP Retiree properly completes the enrollment procedures required by the Administrator within 31 days after retirement. If the MSRP Retiree has assigned his term life insurance provided by the Associate-Paid Plan, the assignee may elect the coverage provided by this Section 3.1. No late enrollment procedures are available for MSRP Retirees. Notwithstanding the foregoing, an MSRP Retiree who was receiving coverage under the Associate-Paid or the Company-Paid Plan on account of Disability on the MSRP Retiree's retirement date will not become eligible to purchase coverage under this Plan.

3.2 Termination of Coverage. A Participant's coverage under the Plan will terminate automatically on the earliest to occur of the following: (i) the last day of the month in which the Participant attains age 65; (ii) subject to Article 8, the date on which the Plan is terminated, or amended to terminate coverage with respect to any group or class of MSRP Retirees that includes the Participant; (iii) the date on which the Policy under which the Participant's benefits are provided is cancelled or terminated and not replaced; (iv) the last day of the month in which the Participant fails to make any required premium payment; (v) the last day of the month in which the Participant becomes eligible for coverage under the Company-Paid Plan as an active Associate; or (vi) the date of the Participant's death. A Participant whose coverage is terminated pursuant to subsection (v) above, shall again become eligible to participate in the Plan on the first day of the month on or after the date he or she ceases to be an active Associate eligible for coverage under the Company-Paid Plan.

3.3 Enrollment Procedures. The Administrator may from time to time prescribe enrollment procedures and forms that are consistent with the terms of the Plan.

3.4 Coverage Not Extended by Payment. The duration of a Participant's coverage is determined solely by the terms of the Plan, and coverage which has otherwise terminated will not be extended even if premium payments for the terminated coverage continue to be made and/or processed on behalf of the Participant.

ARTICLE 4

LIFE INSURANCE BENEFITS

4.1 Amount of Life Insurance. An MSRP Retiree may purchase life insurance coverage under the Policies in an amount equal to 100% of the MSRP Retiree's Annual Earnings for Benefits. Coverage will be rounded to the next higher $1,000 if it is not already an even multiple of $1,000.

4.2 Evidence of Good Health. To the extent required by the Plan, applicable Policies, the Insurer or the Administrator, Participants will be required to provide evidence of good health satisfactory to the Insurer or Administrator as a condition to coverage.

4.3 Payment of Benefits. Except as provided in 4.7, the Insurer will pay benefits payable under the Plan to the beneficiary or beneficiaries as soon as practicable after receipt by the Insurer of properly submitted claims. Benefits will be paid in a single lump sum payment unless the Participant (or the beneficiary, if applicable) elects a different method of payment offered by the Insurer.

4.4 Designation of Beneficiary. Except as provided in 4.7, a Participant may designate one or more beneficiaries to receive the life insurance benefits under the Plan with respect to coverage on the Participant's life, or may change a prior beneficiary designation, by completing and delivering a written beneficiary designation form in accordance with procedures specified by the Administrator from time to time. If no beneficiary has been designated under a Policy (or the beneficiary is not alive on the date of the Participant's death), benefits will be paid to the Participant's estate.

4.5 Benefit Limitation. Benefits under the Plan are subject to the terms of the Policies and to applicable state law.

4.6 Recovery of Overpayment. Any amounts paid to any person in excess of the amount to which he is entitled under the Plan will be repaid by that person to the Insurer promptly following receipt by the person of a notice of such excess payments. In the event such repayment is not made, such repayment may be made, at the discretion of the Insurer, by reducing or suspending any future payments due under the Plan to the person and by taking such other or additional action as may be permitted by applicable law.

4.7 Accelerated Payment Option. A Participant who is terminally ill (as hereinafter defined) may elect to receive a prepayment, as an accelerated payment option, up to the lesser of $250,000 or 50% of the applicable life insurance benefit under the Plan. The balance of the life insurance benefit under the Plan will be paid to the Participant's beneficiary upon the Participant's death, subject to the terms of the Plan. The accelerated payment option will be paid to the Participant in a lump sum, or in twelve monthly installments if the Participant so elects. If the Participant dies before receiving the full amount of the accelerated payment option under this Section, the remainder will be paid to the beneficiary or beneficiaries as part of the balance of the life insurance benefit, subject to the terms of the Plan. For purposes of this Plan, a Participant will be considered to be "terminally ill" if the Participant furnishes to the Insurer satisfactory proof that the Participant's life expectancy is twelve months or less.

4.8 Payment Satisfied Claim. Any payment for the benefit of a Participant, the Participant's estate or the Participant's beneficiary that is made in accordance with the foregoing provisions of this Article or that is made as a settlement to any claim or lawsuit, will, to the extent of the payment, be in full satisfaction of all claims under the Plan against the Participating Employers, the Insurer and the Administrator, any of whom may require such payee, as a condition precedent to such payment, to execute a release acknowledging receipt of such payment. No interest will be paid on any underpayment of benefits or on any benefit payments that have been delayed for any reason, unless required by law.

4.9 No Double Payment. Under no condition will the Plan pay more than one benefit on account of a Participant's death. If a Participant has coverage under the Plan at the time of his or her death under more than one of the Plan's provisions, the Plan will pay only under the one applicable provision with the highest amount of coverage.

4.10 Alienation and Assignment. The interests of the Participants and their beneficiaries under the Plan are not in any way subject to their debts or other obligations, and may be transferred or assigned only to the extent permitted by the applicable Policy or a Qualified Domestic Relations Order.

ARTICLE 5

FUNDING OF BENEFITS

5.1 Associate-Paid Premiums. The Participants will pay all or a portion of the cost of premiums with respect to benefits under the Policies as determined by the Administrator in its discretion from time to time. The Administrator will have full and exclusive power to determine the cost of coverage to be paid by each Participant, and to adjust the required cost from time to time. In establishing the amount of required Participant cost, the Administrator may rely on tables, appraisals, valuations, projections, opinions, and reports furnished by agents employed or engaged by the Administrator or the Company, and may take into account the projected or anticipated costs and expenses relating to the Plan, including without limitation administrative costs and insurance premiums. Premiums required of Participants will be treated as fixed premium payments, and neither the Participants nor any beneficiary will be entitled to any dividend, credit, refund, or rebate under any Policy on account of actual claims experience, investment performance, or similar factors, but all such dividends, credits, refunds, and rebates shall be the sole property of the Company, except to the extent that the aggregate amount of such dividends, credits, refunds, or rebates exceeds the aggregate payments made by the Participating Employers for the employer portion of the cost of premiums under the Policies. The amount of any such excess shall be applied by the Administrator in its discretion from time to time for the benefit of Participants or their beneficiaries.

5.2 Participating Employer Obligations. The Participating Employers will pay the portion, if any, of the cost of premiums with respect to benefits under the Policies as determined by the Administrator in its discretion from time to time. The Participating Employers' obligations under the Plan are limited to the payment of such portion of applicable premiums due under any Policies in force, and no Participant or beneficiary will have any claim or cause of action against any Participating Employer on account of the failure of an Insurer to pay benefits due under the Policies.

5.3 Source of Benefits. Benefits under the Plan will be paid solely from the Policies and only to the extent provided under such Policies. Any payment for the benefit of a Participant that is made in accordance with the terms of the Policies will, to the extent of the payment, be in full satisfaction of all claims under the Plan against the Participating Employers, the Administrator, and the Insurer, any of whom may require such payee, as a condition precedent to such payment, to execute a release acknowledging receipt of such payment.

ARTICLE 6

ADMINISTRATION OF THE PLAN

6.1 General Powers and Duties of the Administrator. The Administrator will have the full power, responsibility, and discretion to administer the Plan and to construe and apply Plan provisions, and will be the named fiduciary with respect to the operation and administration of the Plan, except with respect to the specific responsibilities performed by the Insurer pursuant to the Policies or delegated to the Insurer or another fiduciary pursuant to Section 6.3 or 6.4. The Administrator, and all other persons with discretionary control respecting the operation, administration, control, and/or management of the Plan will perform their duties under the Plan solely in the interests of Participants and their beneficiaries.

6.2 Specific Powers and Duties of the Administrator. The Administrator will administer the Plan and have the full authority and discretion necessary to accomplish that purpose, including without limitation the authority and discretion to: (i) resolve all questions relating to the eligibility of Associates to become or continue as Participants, (ii) engage any administrative, legal, medical, accounting, clerical, or other services it deems appropriate in administering the Plan, (iii) construe and interpret the Plan, supply omissions from, correct deficiencies in and resolve inconsistencies or ambiguities in the language of the Plan, resolve inconsistencies or ambiguities between the provisions of this Plan and the provisions of any Policy, and adopt rules for the administration of the Plan which are not inconsistent with the terms of the Plan document, (iv) compile and maintain all records it determines to be necessary, appropriate, or convenient in connection with the administration of the Plan, and (v) resolve all questions of fact relating to any matter for which it has administrative responsibility.

6.3 Authority of Insurer. The Insurer will be responsible for the initial review, payment, and/or denial of claims for benefits under the Policies. In carrying out its responsibilities under the Policies, the Insurer will have the authority and discretion to (i) determine the amount of benefits, if any, payable to Participants and beneficiaries under the Policies and determine the time and manner in which such benefits are to be paid, (ii) construe and interpret the Policies, and (iii) compile and maintain all records it determines to be necessary, appropriate, or convenient in connection with the Policies.

6.4 Allocation of Fiduciary Responsibility. The Administrator from time to time may delegate to any other persons or organizations any of its rights, powers, duties, and responsibilities with respect to the operation and administration of the Plan that are permitted to be delegated under ERISA. Any such allocation or delegation will be reviewed periodically by the Administrator, and will be terminable upon such notice as the Administrator in its discretion deems reasonable and proper under the circumstances. Whenever the Administrator delegates discretionary authority respecting the administration of the Plan to another person or organization, the

Administrator's responsibility with respect to such delegation is limited to the selection of the person to whom authority is delegated and the periodic review of such person's performance and compliance with applicable law and regulations. Any breach of fiduciary responsibility by the person to whom authority has been delegated which is not proximately caused by the Administrator's failure to properly select or supervise, and in which breach the Administrator does not otherwise participate, will not be considered a breach by the Administrator.

6.5 Information to be Submitted to the Administrator. To enable the Administrator to perform its functions, each Participating Employer will supply full and timely information to the Administrator on all matters relating to Associates as the Administrator may require and will maintain such other records required by the Administrator to determine the benefits due under the Plan.

6.6 Expenses and Compensation. The expenses of administering the Plan, including without limitation the expenses of the Administrator properly incurred in the performance of its duties under the Plan, will be paid by the Company. The Administrator will not be compensated by the Plan for services as Administrator.

6.7 Reporting and Disclosure. The Company will be the "administrator" of the Plan as defined in ERISA section 3(16)(A) for purposes of the reporting and disclosure requirements imposed by ERISA and the Code. The Administrator will assist the Company, as requested, in complying with such reporting and disclosure requirements.

6.8 Claims Procedure. Participants and beneficiaries must apply for Plan benefits in writing on a form provided by the Administrator and must supply any supplemental information required by the Administrator or the Insurer. Following completion of the claim form, the form may be returned to the Administrator for submission to the Insurer, or may be submitted directly to the Insurer if so specified by the Administrator.

All claims will be made in writing and will be signed by the claimant. If the claimant does not furnish sufficient information to determine the validity of the claim, the Administrator will indicate to the claimant any additional information which is required. Each claim will be approved or disapproved by the Insurer within 90 days following the receipt of the information necessary to process the claim. In the event the Insurer denies a claim for benefits in whole or in part, the Insurer will notify the claimant in writing of the denial of the claim. Such notice by the Insurer will also set forth, in a manner calculated to be understood by the claimant, the specific reason for such denial, the specific Plan provisions on which the denial is based, a description of any additional material or information necessary to perfect the claim with an explanation of why such material or information is necessary, and an explanation of the Plan's claim review procedure as set forth below. If no action is taken by the Insurer on a claim within 90 days, the claim will be deemed to be denied for purposes of the review procedure.

6.9 Appeals Procedure. A claimant may appeal a denial of his claim with respect to "Procedural Issues" (as hereinafter defined) by requesting a review of the decision by the Administrator or a person designated by the Administrator, which person will be a named fiduciary under ERISA section 402(a)(2) for purposes of this Section. A claimant may appeal a denial of his claim with respect to "Coverage Issues" (as hereinafter defined) by requesting a review of the decision by the Insurer, which will be a named fiduciary under ERISA section 402(a)(2) for purposes of this Section. An appeal must be submitted in writing within one year after the notice of denial is received (or within 60 days if the notice of denial is received after December 31, 1995) and must (i) request a review of the claim for benefits under the Plan, (ii) set forth all of the grounds upon which the claimant's request for review is based and any facts in support thereof, and (iii) set forth any issues or comments which the claimant deems pertinent to the appeal. The Administrator, Insurer, or other applicable named fiduciary will make a full and fair review of each appeal and any written materials submitted in connection with the appeal. The Administrator, Insurer, or other applicable named fiduciary will act upon each appeal within 60 days after receipt thereof unless special circumstances require an extension of the time for processing, in which case a decision will be rendered as soon as possible but not later than 120 days after the appeal is received. The claimant will be given the opportunity to review pertinent documents or materials upon submission of a written request to the Administrator, Insurer, or other named fiduciary, provided the Administrator, Insurer, or other named fiduciary finds the requested documents or materials are pertinent to the appeal. On the basis of its review, the Administrator, Insurer, or other named fiduciary will make an independent determination of the claimant's eligibility for benefits under the Plan. The decision of the Administrator, Insurer, or other named fiduciary on any claim for benefits will be final and conclusive upon all parties thereto. In the event the Administrator, Insurer, or other named fiduciary denies an appeal in whole or in part, it will give written notice of the decision to the claimant, which notice will set forth in a manner calculated to be understood by the claimant the specific reasons for such denial and which will make specific reference to the pertinent Plan provisions on which the decision was based.

For purposes of this Section, the term "Procedural Issues" means issues concerning (i) an Associate's eligibility to become or continue as a Participant, (ii) an Associate's employment status at the time of the claim or when the claim arose, (iii) a determination of a Participant's Annual Earnings for Benefits, and (iv) other procedural issues that do not require interpretation of the Policies.

For purposes of this Section, the term "Coverage Issues" means issues concerning (i) whether death is covered under the Policy, (ii) the documentation required by the Insurer, (iii) conversion rights under Article 9, (iv) the validity of beneficiary designations, (v) determinations regarding Disability, and (vi) other questions concerning the extent of Plan coverage under the terms of the Policies.

6.10 <u>Uniform Application of Rules and Policies</u>. The Administrator in exercising its discretion granted under any of the provisions of the Plan will do so only in accordance with rules and policies that it establishes, which rules and policies will be uniformly applicable to all Associates, MSRP Retirees and their beneficiaries.

6.11 <u>Reliance on Tables, etc</u>. The Administrator is entitled to rely upon all tables, valuations, certificates, and reports furnished by any duly appointed actuary, upon all certificates and reports made by any duly appointed independent qualified public accountant and upon all opinions given by legal counsel. The Administrator will be fully protected in respect of any action taken or suffered by the Administrator in good faith reliance upon all such tables, valuations, certificates, reports, opinions, or other advice. The Administrator is also entitled to rely upon any data or information furnished by a Participating Employer or by an Associate, MSRP Retiree, or beneficiary as to the age or Annual Earnings for Benefits of any person, or as to any other information pertinent to any calculation or determination to be made under the provisions of the Plan, and, as a condition to payment of any benefit under the Plan, may request an Associate, MSRP Retiree, or beneficiary to furnish such information as the Administrator deems necessary or desirable in administering the Plan. If an Associate, MSRP Retiree, or beneficiary does not provide accurate information in connection with enrollment or coverage under the Plan, the Administrator may, in its discretion, delay or deny the affected coverage. If any relevant facts regarding an Associate, MSRP Retiree, or beneficiary are inaccurate or misstated, the Administrator may make an equitable adjustment of contributions, and the true facts will be used by the Administrator to determine whether, and in what amount, coverage is in effect.

ARTICLE 7

<u>ADOPTION BY PARTICIPATING EMPLOYERS</u>

7.1 Adoption Procedure. Any subsidiary or affiliate of the Company may become a Participating Employer under the Plan provided that (i) the HR Committee approves the adoption of the Plan by the subsidiary or affiliate and designates the subsidiary or affiliate as a Participating Employer in the Plan, and (ii) by appropriate resolutions of the board of directors or other governing body of the subsidiary or affiliate, the subsidiary or affiliate agrees to become a Participating Employer under the Plan and also agrees to be bound by any other terms and conditions which may be required by the HR Committee or the Administrator, provided that such terms and conditions are not inconsistent with the purposes of the Plan. A Participating Employer may withdraw from participation in the Plan by providing written notice to the Administrator that the board of directors or other governing body of the Participating Employer has approved withdrawal. The HR Committee may at any time remove a Participating Employer from participation in the Plan by providing written notice to the Participating Employer that the HR Committee has approved removal. The HR Committee will act in accordance with this Article pursuant to unanimous written consent or by majority vote at a meeting.

ARTICLE 8

AMENDMENT AND TERMINATION

8.1 Right to Suspend Premium Payments. It is the expectation of the Participating Employers that they will continue to pay any employer portion of premium payments as determined under Article 5, but they do not assume an individual or collective contractual obligation to do so, and the right is reserved by the HR Committee at any time to reduce, suspend, or discontinue any such premium payments.

8.2 Right to Amend. The right to amend the Plan at any time in any respect is reserved to the Company acting through the HR Committee or the Administrator as provided herein, without prior notice to or approval by Participants, Participants' estates, their designated representatives, beneficiaries or any Participating Employer, provided that no amendment will adversely affect individuals who are Participants on the effective date of the amendment unless otherwise required to comply with applicable law. The HR Committee may amend the Plan at any time and from time to time to the extent it may deem advisable or appropriate. In addition, the Administrator may amend the Plan at any time and from time to time to the extent the Administrator deems it advisable or appropriate, provided that such amendment would not significantly increase the cost of the Plan to the Participating Employers. The right to amend includes: (a) the right to change, limit or eliminate coverage or benefits and (b) the right to limit Company contributions made to the Plan on behalf of Participants and to require Participants to pay the balance of any Plan costs.

8.3 Amendment Procedure. Each amendment to the Plan by the HR Committee or the Administrator will be made only pursuant to unanimous written consent or by majority vote at a meeting, and a copy of any amendment adopted by the HR Committee will be delivered to the Administrator. Upon such action by the HR Committee or the Administrator, the Plan will be deemed amended as of the date specified as the effective date by such action or in the instrument of amendment. The effective date of any amendment may be before, on, or after the date of such action of the HR Committee or the Administrator.

8.4 Termination of the Plan. The Participating Employers expect to continue the Plan indefinitely, but they do not assume an individual or collective contractual obligation to do so, and the right is reserved to the Company, acting through the HR Committee, to terminate the Plan or to completely discontinue premium payments with respect to any Policy at any time, without prior notice to or approval by Participants or beneficiaries. Notwithstanding the foregoing, in no event will termination of the Plan adversely affect individuals who are Participants on the effective date of the amendment unless otherwise required to comply with applicable law. The authority of the HR Committee will be exercised by unanimous written consent or by majority vote at a meeting.

ARTICLE 9

CONVERSION RIGHTS

9.1 Conversion to Individual Policy. A Participant whose coverage under the Plan terminates under Section 3.2 will have the right to convert his or her group term life insurance coverage to an individual policy to the extent, and only to the extent, permitted under the group Policy applicable to the Participant. Any election to convert to individual coverage must be made within 31 days after the Participant's coverage under the Plan terminates, and must be made in accordance with all requirements specified in such Policy.

9.2 Death During Conversion Period. If a Participant dies within 31 days after coverage has terminated under the Plan and while the Participant is entitled to convert his or her group coverage to an individual policy under the terms of the applicable Policy, the Participant's beneficiary will be entitled to a death benefit from the Policy in an amount equal to the amount of term life insurance the Participant was entitled to convert immediately prior to death. Any benefit payable during the conversion period will be paid solely from the Policy and will not constitute a benefit under the Plan.

ARTICLE 10

MISCELLANEOUS PROVISIONS

10.1 No Right of Employment. Participation in the Plan will not give any Associate or Participant the right to be retained in the employment of the Company.

10.2 Gender and Number. Whenever used in this Plan, unless the context indicates otherwise, words in the masculine gender will include the feminine gender, and words in the plural will include the singular, and the singular will include the plural.

10.3 Notices. Any notice or document required to be given to a Participant or beneficiary will be properly given if (i) mailed, postage prepaid, to the Participant or beneficiary at his last known address as set forth in the Participating Employer's records, or (ii) in the case of a Participant who is an Associate, distributed to the Associate at his or her place of employment, or (iii) sent electronically to any Covered Associate or beneficiary in compliance with 29 CFR Section 2520.104b-1(c). All notices required to be given or any document required to be filed with the Administrator will be properly given or filed if mailed postage prepaid, certified mail, to the Administrator or Insurer at the addresses as set forth in the Summary Plan Descriptions of the Plan furnished to Participants from time to time.

10.4 Section Headings. The section headings or head notes are inserted only as a matter of convenience and for reference and in no way define, limit, or describe the scope or intent of the Plan.

10.5 Officers. Any reference to a particular officer of the Company will also refer to the functional equivalent of such officer in the event the title or responsibilities of that office change.

10.6 Consent to Terms of Plan. By enrolling for coverage under the Plan, a

Participant agrees that the terms and conditions of the Plan will be binding on the Participant and the Participant's beneficiaries.

10.7 Severable Plan Provisions. If any provision of the Plan, including instruments incorporated in the Plan by reference, shall be held illegal, invalid, or disqualifying for any reason, including, but not limited to, any inconsistency in the text of the Plan with applicable law or regulation, said illegality, invalidity, or inconsistency shall not affect the remaining provisions of the Plan, such illegal, invalid, disqualifying, or inconsistent provision shall be fully severed from the contents of the Plan, and the Plan shall be construed and enforced as if such illegal, invalid, disqualifying, or inconsistent provision had not been included in the Plan.

10.8 Oral Representations. The Plan governs, controls, and supersedes any and all representations, either oral or written, made by any employee or agent, or other representative of the Company or any Participating Employer, and no other agreements, statements, or assertion relating to the subject matter of this Plan shall be valid or enforceable.

10.9 Governing Law. Except to the extent that the Plan may be subject to the provisions of ERISA, the Plan will be construed and enforced according to the laws of the State of Texas, without giving effect to the conflict of laws principles thereof. Except as otherwise required by ERISA, every right of action by a Participant, former Participant, or beneficiary with respect to the Plan will be barred after the expiration of three years from the date of termination of employment or the date of receipt of the notice of denial of a claim for benefits, if earlier. In the event ERISA's limitation on legal action does not apply, the laws of the State of Texas with respect to the limitations of legal actions will apply and the cause of action must be brought no later than four years after the date the action accrues.

APPENDIX I

Participating Employers
As of January 1, 2002

J.C. Penney Company, Inc.

JCP Publications Corp.
(Previously JCP Media Corporation)
(from and after April 3, 1996)

JCP Overseas Services, Inc.
(from and after July 1, 1996)

JCPenney Puerto Rico, Inc.

JCP Logistics L. P.
(from and after February 1, 1999)

JCP Media L.P.
(from and after February 1, 1999)

JCP Procurement L.P.
(from and after February 1, 1999)

J.C. Penney Private Brands, Inc.
(from and after January 1, 2000)

JCP Ecommerce L.P.
(from and after January 1, 2001)

EXHIBIT 10(ii)(y)

J. C. PENNEY CORPORATION, INC.

BENEFIT RESTORATION PLAN

ADOPTED EFFECTIVE AUGUST 1, 1995

AS AMENDED THROUGH JANUARY 27, 2002

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DOCUMENT HISTORY

This document is the Plan adopted by the Benefit Plans Review Committee on July 11, 1995 with an effective date of August 1, 1995, as amended on the following dates:

April 10, 1996	Board of Directors
April 10, 1996	Benefit Plan Review Committee
*June 28, 1996	Personnel Committee
July 9, 1997	Benefit Plan Review Committee
December 30, 1997	Director of Personnel
December 11, 1998	Human Resources Committee
January 13, 1999	Board of Directors
May 21, 1999	Benefit Plans Review Committee
July 14, 1999	Board of Directors
March 23, 2001	Human Resources and Compensation Committee
**January 27, 2002	Chief Human Resources and Administration Officer

*resolutions only
**Pursuant to authority granted by the Board of Directors on December 5, 2001

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J. C. PENNEY CORPORATION, INC.
BENEFIT RESTORATION PLAN

Adopted Effective August 1, 1995
As Amended Through January 27, 2002

TABLE OF CONTENTS

J. C. PENNEY CORPORATION, INC.
BENEFIT RESTORATION PLAN

Adopted Effective August 1, 1995
As Amended Through January 27, 2002

ARTICLE I. INTRODUCTION

The J. C. Penney Corporation, Inc. Benefit Restoration Plan is a plan maintained by the Company primarily for the purpose of providing benefits for eligible Associates in excess of the limit on benefits and contributions imposed by Internal Revenue Code Section 415 and the compensation limit under section 401(a)(17) of the Internal Revenue Code.

This document amends and completely restates the portion of the Supplemental Retirement Program for Management Profit-Sharing Associates of J. C. Penney Corporation, Inc. that provided benefits that would have been payable under the J. C. Penney Corporation, Inc. Pension Plan and the J. C. Penney Corporation, Inc. Savings, Profit-Sharing and Stock Ownership Plan but for the limits on benefits, contributions, and compensation imposed on retirement plans qualified under the Internal Revenue Code. With respect to Associates who terminated employment prior to August 1, 1995, benefits payable to such Associates are determined pursuant to the terms and conditions of the Supplemental Retirement Program for Management Profit-Sharing Associates of J. C. Penney Corporation, Inc. in effect as of July 31, 1995.

Effective January 1, 1999, amounts credited to the Annual Benefit Limit Make-Up Account as of December 31, 1998 of each Participant were transferred into the J. C. Penney Corporation, Inc. Mirror Savings Plan II and therefore were no longer payable under the J. C. Penney Corporation, Inc. Benefit Restoration Plan after December 31, 1998.

Effective January 1, 1999, the Thrift Drug, Inc. Benefit Restoration Plan was merged into the J. C. Penney Corporation, Inc. Benefit Restoration Plan.

ARTICLE II. DEFINITIONS

For the purpose of this Plan the following terms shall have the following meanings:

Associate: Any person who is employed by a Controlled Group Member if the
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relationship between a Controlled Group Member and such person would constitute the legal relationship of employer and employee, including an officer who may or may not be a director, but excluding a director serving only in that capacity, and excluding any employee of a Controlled Group Member substantially all the operations of which are outside the United States unless United States Social Security contributions are made on behalf of such employee.

Human Resources and Compensation Committee: The Human Resources and

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Compensation Committee of the Board of Directors of the Company.

    Benefits Administration Committee: The committee appointed by the Human
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Resources Committee and authorized by Article VI to administer the Plan.

    Board of Directors: Board of Directors of the Company.

    Code: The Internal Revenue Code of 1986, as amended from time to time.

References to "regulations" are to regulations published by the Secretary of the Treasury under applicable provisions of the Code, unless otherwise expressly indicated.

    Company: J. C. Penney Corporation, Inc., a Delaware corporation. The term
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"Company" will also include any successor employer, if the successor employer expressly agrees in writing as of the effective date of succession to continue the Plan.

    Controlled Group: The Company and all other corporations, trades, and
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businesses, the employees of which, together with employees of the Company, are required by the first sentence of subsection (b), by subsection (c), by subsection (m), or by subsection (o) of Code section 414 to be treated as if they were employed by a single employer.

    Controlled Group Member: Each corporation or unincorporated trade or
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business that is or was a member of a Controlled Group, but only during such period as it is or was such a member.

    Effective Date: August 1, 1995.

    ERISA: Employee Retirement Income Security Act of 1974, as amended from
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time to time.

    Human Resources Committee: The Human Resources Committee of the Management
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Committee of the Company.

    Parent Company: J. C. Penney Company, Inc., a Delaware corporation, and any
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successor corporation.

    Participant: An eligible Associate of a Participating Employer who has
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satisfied the conditions for participating in the Plan as set forth in Article III and who has not received a complete distribution of benefits.

    Participating Employer: The Company and any other Controlled Group Member
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or organizational unit of the Company or of a Controlled Group Member which is designated as a Participating Employer under the Plan by the Human Resources Committee; provided, however, that if any such designation would substantially increase the cost of the Plan to the Company, such designation shall be subject to the sole discretion of the Board of Directors.

    Pension Benefit: The monthly benefit that is payable to a Participant
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pursuant to the provisions of the Pension Plan in the form of a single-life, no-death-benefit annuity, assuming the Participant's benefit commencement date under the Pension Plan is the first day of the month immediately following the date of the Participant's Separation from Service.

    Pension Plan: J. C. Penney Corporation, Inc. Pension Plan, as amended from

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time to time.

Pension Plan Participant: An Associate or former Associate who is treated
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as a participant under the Pension Plan.

Plan: J. C. Penney Corporation, Inc. Benefit Restoration Plan, as amended
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from time to time.

Plan Year: The twelve-month period beginning on January 1 and ending on
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December 31 of each calendar year.

Prior Plan: The Supplemental Retirement Program for Management
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Profit-Sharing Associates of J. C. Penney Corporation, Inc. as in effect on July 31, 1995.

Separation from Service or Separates from Service: Termination of service
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by reason of disability, discharge, retirement (including resignation), or death. Termination of service due to a disability is deemed to occur upon the later of termination of sick pay or the end of any leave of absence granted the Participant.

Spouse: The individual to whom an Associate is legally married under the
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laws of the State (within the meaning of section 3(10) of ERISA) in which the Associate is domiciled, or if domiciled outside the United States, under the laws of the State of Texas.

Supplemental Retirement Program: The Supplemental Retirement Program for
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Management Profit-Sharing Associates of J. C. Penney Corporation, Inc., as amended and restated August 1, 1995, and as further amended from time to time.

Unrestricted Benefit: The monthly benefit that would be payable to a
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Participant pursuant to the provisions of the Pension Plan in the form of a single-life, no-death-benefit annuity, assuming the Participant's benefit commencement date under the Pension Plan is the first day of the month immediately following the date of the Participant's Separation from Service, if the Participant's benefit under the Pension Plan were determined without applying the provisions of the Pension Plan relating to the limitation on compensation under Section 401(a)(17) of the Code or the limitation on benefits under Section 415 of the Code.

ARTICLE III. PARTICIPATION

(1) Pension Plan Benefit: For purposes of Paragraph (1) of Article IV, any
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Associate of a Participating Employer who is a Pension Plan Participant on or after the Effective Date and whose retirement pension benefit payable pursuant to the terms of the Pension Plan is limited by operation of the annual benefit limits under Section 415 of the Code or the compensation limits under Section 401(a)(17) of the Code shall be a Participant in the Plan. In addition, an active or former Associate for whom a benefit was accrued under Paragraph (2) of Article III of the Prior Plan and whose benefit under Paragraph (2) of Article III under the Prior Plan had not been completely distributed to such Associate at July 31, 1995, will also be a Participant in the Plan.

ARTICLE IV. BENEFITS

(1) Pension Plan Participant Benefit: A Participant shall be entitled to a

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monthly benefit equal in amount to his Unrestricted Benefit less his Pension Benefit.

Additionally, a benefit shall be accrued for each Participant for whom a benefit was accrued under Paragraph (2) of Article III of the Prior Plan at July 31, 1995, and whose accrued benefit had not been completely distributed from the Prior Plan. The value of the Participant's Prior Plan benefit under Paragraph (2) of Article III determined as of July 31, 1995, will become an accrued benefit under this Plan and will be distributed to the Participant pursuant to the terms of this Plan. The distribution to a Participant from this Plan of such Prior Plan accrued benefit will completely discharge the Company and each other Participating Employer from any further liability for such benefit.

(2) Death Benefit: For purposes of the benefit provided by Paragraph (1) of
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this Article IV, if a Participant is married at the time such Participant Separates from Service by reason of death, or if a Participant who has Separated from Service and who is married at the time of his death, dies before payment has begun under the Plan, the Participant's Spouse will receive the benefit, at the time the Participant would have attained age 55, that would have been payable if the Participant had a Separation from Service immediately prior to such Participant's death (if he was an active Participant on the date of death), had survived to age 55, and had begun to receive benefits immediately prior to his death in the form of a 50% joint and survivor annuity without payment certain with the Spouse as the beneficiary.

Notwithstanding the preceding sentence, if the Participant at the time of his death (a) was 55 years of age or more, (b) had 15 years or more of service, as defined by the Pension Plan, and (c) Separates from Service by reason of death, the joint and survivor annuity payable to the Spouse will be in the form of a 100% (75% if death occurs prior to January 1, 1996) joint and survivor annuity without payment certain.

(3) Vesting: For purposes of the benefit provided by Paragraph (1) of this
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Article IV, a Participant will have the same degree of vested and nonforfeitable interest in his benefit under this Plan as the Participant has in his Pension Benefit under the Pension Plan.

(4) Effect of Certain Payments Made in December 1992: In the event the
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Company made payments to a current or former Participant on or before December 31, 1992 under the Company's Profit Incentive Compensation program and under the Performance Unit Plan and such payments were attributable to the Company's fiscal year ending on January 30, 1993, this Paragraph shall apply. The effect of such payments on the benefits payable to such individual under the Savings, Profit-Sharing and Stock

Ownership Plan and under the Pension Plan shall be determined with respect to whether an increase or decrease in benefits resulted. Benefits payable under this Plan to such current or former Participants shall be adjusted (a) to offset any such increase in benefits and/or (b) to restore any such decrease in benefits so that no advantage or detriment, as the case may be, shall be experienced by any such current or former Participant with respect to total retirement benefits under the Pension Plan and Savings, Profit-Sharing and Stock Ownership Plan and this Plan.

ARTICLE V. FORM AND COMMENCEMENT OF BENEFIT PAYMENTS

(1) Optional Forms and Commencement of Benefit Payments: Except as
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otherwise provided in this Plan and subject to such rules and regulations as the Benefits Administration Committee may establish from time to time with respect to time and manner of payment, benefits provided by this Plan shall be payable as follows. For purposes of the benefit provided by Paragraph (1) of Article IV, the Participant shall receive the annual benefit payable under Paragraph (1) of

Article IV in such a form and at such time and actuarially adjusted in such a manner as the benefit payable under the Pension Plan. Payment of such benefit may be deferred to a date no later than the Participant's attainment of age 65 only if the Participant has elected to defer receipt of benefits under the Pension Plan.

(2) Small Annuities: If the total benefit payable with respect to a Participant under Paragraph (1) of Article IV plus the benefits payable from the Pension Plan would not provide monthly payments exceeding $100, the benefit shall be converted into an actuarially equivalent lump sum payment (applying the actuarial factors utilized in the Pension Plan).

ARTICLE VI. ADMINISTRATION

The Benefits Administration Committee will administer the Plan and will have the full authority and discretion to accomplish that purpose, including without limitation, the authority and discretion to

(i) interpret the Plan and correct any defect, supply any omission or reconcile any inconsistency or ambiguity in the Plan in the manner and to the extent that the Benefits Administration Committee deems desirable to carry on the purpose of the Plan,

(ii) resolve all questions relating to the eligibility of Associates to become or continue as Participants,

(iii) determine the amount of benefits payable to Participants and authorize and direct the Company with respect to the payment of benefits under the Plan,

(iv) make all other determinations and resolve all questions of fact necessary or advisable for the administration of the Plan, and

(v) make, amend, and rescind such rules as it deems necessary for the proper administration of the Plan.

The Benefits Administration Committee will keep a written record of its actions and proceedings regarding the Plan and all dates, records, and documents relating to its administration of the Plan.

Any action taken or determination made by the Benefits Administration Committee will be conclusive on all parties. No member of the Benefits Administration Committee will vote on any matter relating specifically to such member. In the event that a majority of the members of the Benefits Administration Committee will be specifically affected by any action proposed to be taken (as opposed to being affected in the same manner as each other Participant in the Plan), such action will be taken by the Human Resources Committee.

ARTICLE VII. TYPE OF PLAN

The Plan is a plan which is unfunded. Benefits under the Plan are paid from the general assets of the Company.

The portion of this Plan in Paragraph (1) of Article IV which comprises the benefit determined due to the limit on annual benefits under the Pension Plan imposed by Code Section 415 constitutes a separable part of this Plan which is maintained by the Company solely for the purpose of providing benefits for certain Associates in excess of the limitations on benefits imposed by Section 415 of the Code. This separable portion of the Plan shall be construed according to the provisions of ERISA applicable to such Plans.

The remaining portion of the Plan is maintained by the Company primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees. The Plan shall be construed according to the provisions of ERISA applicable to such plans.

In the event that it should subsequently be determined by statute or by regulation or ruling that the Plan is not "a plan which is unfunded and is maintained primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees" within the meaning of sections 201(2), 301(a)(3), 401(a)(1), and 4021(b)(6) of ERISA, participation in the Plan shall be restricted by the Benefits Administration Committee to the extent necessary to assure that it will be such a plan within the meaning of such sections.

ARTICLE VIII. MISCELLANEOUS

(1) Amendment and Termination: The Human Resources and Compensation
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Committee may amend or modify the Plan at any time, without prior notice; provided, however, that any such amendment or modification which would substantially increase the cost of the Plan to the Company shall require approval of the Board of Directors of the Company. The Board of Directors of the Company may suspend, discontinue, or terminate the Plan at any time without prior notice or approval.

In no event will any amendment, modification, suspension, discontinuance, or termination adversely affect the Plan benefit payable pursuant to Paragraph (1) of Article IV for any Participant for whom benefit payments have already begun in accordance with the Plan as in effect prior to the effective date of the amendment, modification, suspension, discontinuance, or termination unless otherwise required to comply with applicable law.

Each amendment to the Plan by the Human Resources and Compensation Committee or the Board of Directors will be made only pursuant to unanimous written consent or by majority vote at a meeting. Upon such action by the Human Resources and Compensation Committee or the Board of Directors, the Plan will be deemed amended as of the date specified as the effective date by such action or in the instrument of amendment. The effective date of any amendment may be before, on, or after the date of such action of the Human Resources and Compensation Committee or the Board of Directors.

(2) Rights of Associates: Neither the establishment of the Plan nor any
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action thereafter taken by the Company or any Controlled Group Member or by the Benefits Administration Committee shall be construed as giving to any Associate any vested right to a benefit from the Plan or a right to be retained in employment or any specific position or level of employment with the Company or any Controlled Group Member. Moreover, no Associate shall have any right or claim to any benefits under this Plan if the Associate is summarily discharged, as defined by the Company (including resignation in lieu thereof) unless the Benefits Administration Committee, in its discretion, determines that such Associate shall be eligible for such benefits notwithstanding such summary discharge.

(3) Mistaken Information: If any information upon which a Participant's
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benefit under the Plan is calculated has been misstated by the Participant or is otherwise mistaken, such benefit shall not be invalidated (unless upon the basis of the correct information the Participant would not have been entitled to a benefit), but the amount of the benefit shall be adjusted to the proper amount determined on the basis of the correct information and any overpayments shall be charged against future payments to the Participant or his beneficiary.

(4) Liability: Neither the Board of Directors (including any committees
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thereof) of the Company or of any Participating Employer nor any member of the Benefits Administration Committee or the Human Resources Committee nor any person to whom any of them may delegate any duty or power in connection with administering the Plan shall be personally liable for any action or failure to act with respect to the Plan.

(5) Reemployed Participants: If a retired Participant again becomes an

Associate of a Participating Employer, the payment of benefits hereunder shall continue. Upon such Associate's Separation from Service he shall be entitled to receive applicable benefits, if any, under Article IV pursuant to uniform rules approved by the Benefits Administration Committee.

(6) Construction: In determining the meaning of any provision of the Plan, words imparting the masculine gender shall include the feminine and the singular shall include the plural, unless the context requires otherwise. Headings of paragraphs and Articles in the Plan are for convenience only and are not intended to modify or affect the meaning of the substantive provisions of the Plan.

(7) Non-assignability of Benefits: The benefits payable hereunder or the right to receive future benefits under the Plan may not be anticipated, alienated, pledged, encumbered, or subjected to any charge or legal process, and if any attempt is made to do so, or a person eligible for any benefits becomes bankrupt, the interest under the Plan of the person affected may be terminated by the Benefits Administration Committee which, in its sole discretion, may cause the same to be held or applied for the benefit of one or more of the dependents of such person or make any other disposition of such benefits that it deems appropriate.

(8) Governing Law: Except to the extent that the Plan may be subject to the provisions of ERISA, the Plan will be construed and enforced according to the laws of the State of Texas, without giving effect to the conflict of laws principles thereof. Except as otherwise required by ERISA, every right of action by a Participant, former Participant, or Beneficiary with respect to the Plan shall be barred after the expiration of three years from the date of Separation from Service of the Participant or the date of receipt of the notice of denial of a claim for benefits, if earlier. In the event ERISA's limitations on legal actions do not apply, the laws of the State of Texas with respect to limitations of legal actions shall apply and the cause of action must be brought no later than four years after the date the action accrues.

(9) Change of Control: Upon a Change of Control (as hereinafter defined), assets of the Parent Company in an amount sufficient to pay benefits that have accrued under the Plan up to that date shall immediately be transferred

to a grantor trust to be established by the Parent Company for the purpose of paying benefits hereunder, and the Participant's vested benefits shall thereafter be paid to the Participant from such trust in accordance with the terms of the Plan; provided that at the time of such Change of Control, the Participant may make an irrevocable election to have his Plan benefits paid in a single-sum immediately upon the later of (i) the date of the Change of Control, or (ii) the Participant's retirement date, in which event his benefits shall be reduced by 10% as a penalty for early payment. On each anniversary date of the date of a Change of Control, the Parent Company shall transfer to the grantor trust an amount necessary to pay all benefits accrued under the Plan during the preceding twelve months.

For purposes of this paragraph (9), a Change of Control shall be deemed to have occurred if the event set forth in any one of the following subparagraphs shall have occurred:

(a) any Person is or becomes the Beneficial Owner, directly or indirectly, of securities of the Parent Company (not including in the securities beneficially owned by such Person any securities acquired directly from the Parent Company or its Affiliates) representing 50% or more of the combined voting power of the Parent Company's then outstanding securities; or

(b) during any period of two consecutive calendar years, the following individuals cease for any reason to constitute a majority of the number of directors then serving as directors of the Parent Company: individuals, who on July 14, 1999 constitute the Board of Directors of the Company and any new director (other than a director whose initial assumption of office is in connection with the settlement of an actual or threatened election contest, including but not limited to a consent solicitation, relating to the election of directors of the Parent Company) whose appointment or election by the Board of Directors of the Parent Company or nomination for election by the Parent Company's stockholders was approved or recommended by a vote of at least two-thirds of the directors then still in office who either were directors on July 14, 1999 or whose appointment, election or nomination for election was previously so approved or recommended; or

(c) there is consummated a merger or consolidation of the Parent Company or any direct or indirect subsidiary of the Parent Company with any other corporation or entity, other than (i) a merger or consolidation which would result in the voting securities of the Parent Company outstanding immediately prior to such merger or consolidation continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or any Parent thereof), in combination with the ownership of any trustee or other fiduciary holding securities under an employee benefit plan of the Parent Company or any subsidiary of the Parent Company, at least 50% of the combined voting power of the securities of the Parent

Company, such surviving entity or any Parent thereof outstanding immediately after such merger or consolidation, or (ii) a merger or consolidation effected solely to implement a recapitalization of the Parent Company (or similar transaction) in which no Person is or becomes the Beneficial Owner, directly or indirectly, of securities of the Parent Company (not including in the securities beneficially owned by such Person any securities acquired directly from the Parent Company or its Affiliates) representing 50% or more of the combined voting power of the Parent Company's then outstanding securities; or

(d) the stockholders of the Parent Company approve a plan of complete liquidation or dissolution of the Parent Company, or there is consummated a sale or disposition by the Parent Company or any of its subsidiaries of any assets which individually or as part of a series of related transactions constitute all or substantially all of the Parent Company's consolidated assets, other than any such sale or disposition to an entity at least 50% of the combined voting power of the voting securities of which are owned by stockholders of the Parent Company in substantially the same proportions as their ownership of the voting securities of the Parent Company immediately prior to such sale or disposition; or

(e) the execution of a binding agreement that if consummated would result in a Change of Control of a type specified in subparagraphs (a) or (c) above (an "Acquisition Agreement") or of a binding agreement for the sale or disposition of assets that, if consummated, would result in a Change of Control of a type specified in subparagraph (d) above (an "Asset Sale Agreement") or the adoption by the Board of Directors of the Parent Company of a plan of complete liquidation or dissolution of the Parent Company that, if consummated, would result in a Change of Control of a type specified in subparagraph (d) above (a "Plan of Liquidation"), provided, however, that a Change of Control of the type specified in this subparagraph (e) shall not be deemed to exist or have occurred as a result of the execution of such Acquisition Agreement or Asset Sale Agreement, or the adoption of such a Plan of Liquidation, from and after the Abandonment Date. As used in this subparagraph (e), the term "Abandonment Date" shall mean the date on which (i) an Acquisition Agreement, Asset Sale Agreement or Plan of Liquidation is terminated (pursuant to its terms or otherwise) without having been consummated, (ii) the parties to an Acquisition Agreement or Asset Sale Agreement abandon the transactions contemplated thereby, (iii) the Parent Company abandons a Plan of Liquidation, or (iv) a court or regulatory body having competent jurisdiction enjoins or issues a cease and desist or stop order with respect to or otherwise prevents the consummation of, or a regulatory body notifies the Parent Company that it will not approve an Acquisition Agreement, Asset Sale Agreement or Plan of Liquidation or the transactions contemplated thereby and such injunction, order or notice has become final and not subject to appeal; or

(f) the Board of Directors of the Parent Company adopts a resolution to the effect that, for purposes of this Plan, a Change of Control has occurred.

Notwithstanding the foregoing, a Change of Control shall not be deemed to have occurred by virtue of the consummation of any transaction or series of integrated transactions immediately following which the record holders of the common stock of the Parent Company immediately prior to such transaction or series of transactions continue to have substantially the same proportionate ownership in an entity (i) which owns all or substantially all of the assets of the Parent Company immediately following such transaction or series of transactions, (ii) which is intended to reflect or track the value or performance of a particular division, business segment or subsidiary of the Parent Company, or (iii) which is an affiliated company, subsidiary, or spin-off entity owned by the stockholders of the Parent Company in substantially the same proportions as their ownership of stock of the Parent Company on the date of such spin-off.

As used in connection with the foregoing definition of Change of Control, "Affiliate" shall have the meaning set forth in Rule 12b-2 promulgated under Section 12 of the Exchange Act; "Beneficial Owner" shall have the meaning set forth in Rule 13d-3 under the Exchange Act; "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended from time to time; "Parent" shall mean any entity that becomes the Beneficial Owner of at least 50% of the voting power of the outstanding voting securities of the Parent Company or of an entity that survives any merger or consolidation of the Parent Company or any direct or indirect subsidiary of the Parent Company; and "Person" shall have the meaning given in Section 3(a)(9) of the Exchange Act, as modified and used in Sections 13(d) and 14(d) thereof, except that such term shall not include (i) the Parent Company or any of its subsidiaries, (ii) a trustee or other fiduciary holding securities under an employee benefit plan of the Parent Company or any of its Affiliates, (iii) an underwriter temporarily holding securities pursuant to an offering of such securities, or (iv) a corporation or entity owned, directly or indirectly, by the stockholders of the Parent Company in substantially the same proportions as their ownership of stock of the Parent Company.

ARTICLE IX. CLAIMS PROCEDURES

If an Associate does not receive the benefits which he believes he is entitled to receive under the Plan, he may file a claim for benefits with the Benefits Administration Committee or its delegate. All claims will be made in writing and will be signed by the claimant. If the claimant does not furnish sufficient information to determine the validity of the claim, the Benefits Administration Committee or its delegate will indicate to the claimant any additional information which is required.

Each claim will be approved or disapproved by the Benefits Administration Committee or its delegate within 90 days following the receipt of the information necessary to process the claim. In the event the Benefits Administration Committee or its delegate denies a claim for benefits in whole or in part, the Benefits Administration Committee or its delegate will notify the claimant in writing of the denial of the claim. Such notice by the Benefits Administration Committee or its delegate will also set forth, in a manner calculated to be understood by the claimant, the specific reasons for such denial, the specific Plan provisions on which the denial is based, a description of any additional material or information necessary to perfect the claim with an explanation of the Plan's claim review procedure as set forth below. If no action is taken by the Benefits Administration Committee or its delegate on a claim within 90 days, the claim will be deemed to be denied for purposes of the review procedure.

A claimant may appeal a denial of his claim by requesting a review of the decision by the Benefits Administration Committee or a person designated by the Committee, which person will be a named fiduciary under Section 402(a)(2) of ERISA for purposes of this Article IX. An appeal must be submitted in writing within 60 days after the denial and must (i) request a review of the claim for benefits under the Plan, (ii) set forth all of the grounds upon which claimant's request for review is based and any facts in support thereof, and (iii) set forth any issues or comments which the claimant deems pertinent to the appeal. The Benefits Administration Committee or the named fiduciary designated by the Benefits Administration Committee will make a full and fair review of each appeal and any written materials submitted in connection with the appeal. The Benefits Administration Committee or the named fiduciary designated by the

Benefits Administration Committee will act upon each appeal within 60 days after receipt thereof unless special circumstances require an extension of the time for processing, in which case a decision will be rendered as soon as possible but not later than 120 days after the appeal is received. The claimant will be given the opportunity to review pertinent documents or materials upon submission of a written request to the Benefits Administration Committee or named fiduciary, provided the Benefits Administration Committee or named fiduciary finds the requested documents or materials are pertinent to the appeal.

On the basis of its review, the Benefits Administration Committee or named fiduciary will make an independent determination of the claimant's eligibility for benefits under the Plan. The decision of the Benefits Administration Committee or named fiduciary on any claim for benefits will be final and conclusive upon all parties thereto. In the event the Benefits Administration Committee or named fiduciary denies an appeal in whole or in part, it will give written notice of the decision to the claimant, which notice will set forth in a manner calculated to be understood by the claimant the specific reasons for such denial and which will make specific reference to the pertinent Plan provisions on which the decision was based.

APPENDIX I

Participating Employers

J. C. Penney Corporation, Inc.

JCPenney Business Services, Inc.
(until January 24, 1996)

J. C. Penney Casualty Insurance Company
(until June 18, 2001)

J. C. Penney Funding Corporation

J. C. Penney Life Insurance Company
(until June 18, 2001)

J. C. Penney National Bank
(until December 17, 1997)

J. C. Penney Overseas Services, Inc.
(from and after July 1, 1996)

J. C. Penney Private Brands, Inc.
(from and after January 1, 2000)

J. C. Penney Receivables, Inc.

JCPenney Card Bank, National Association
(from and after December 17, 1997, and
until September 30, 2000)

JCPenney Puerto Rico, Inc.

JCP ECommerce L.P.
(from and after December 24, 2000)

JCP Internet Commerce Solutions, Inc.
(from and after February 1, 1999)

JCP Logistics L.P.
(from and after February 1, 1999)

JCP Media L.P.
(from and after February 1, 1999)

JCP Procurement L.P.
(from and after February 1, 1999)

JCP Publications Corp.
(formerly JCP Media Corporation)
(from and after April 3, 1996)

Eckerd Corporation
(from and after January 1, 1999)

EDC Drug Stores, Inc.
(formerly Kerr Drug Stores, Inc.)
(from and after January 1, 1999)

Fay's Incorporated
(from and after January 1, 1999)

Genovese Drug Stores, Inc.
(from and after January 1, 2000)

Insurance Consultants, Inc.
(from and after April 1, 1999,
and until June 18, 2001)

Quest Membership Services, Inc.
(from and after January 1, 1999,
and until June 18, 2001)

StepInside, Inc.
(from and after January 1, 2000)

TDI Managed Care Services, Inc.
(from and after January 1, 1999)

Thrift Drug, Inc.
(from and after January 1, 1999)

Thrift Drug Services, Inc.
(from and after January 1, 1999)

EXHIBIT 10(ii)(z)

SUPPLEMENTAL RETIREMENT PROGRAM FOR

MANAGEMENT PROFIT-SHARING ASSOCIATES OF

J. C. PENNEY COMPANY, INC.

ADOPTED EFFECTIVE JANUARY 1, 1978

AMENDED AND RESTATED EFFECTIVE AUGUST 1, 1995

AS AMENDED THROUGH June 18, 2001

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This document is the amended and restated Plan adopted by the Benefit Plans Review Committee (BPRC) on July 11, 1995 with an effective date of August 1, 1995, as amended on the following dates:

April 1, 1996 by Director of Personnel;
April 10, 1996 by Board of Directors;
April 10, 1996 by Benefit Plans Review Committee;
June 28, 1996 by Personnel Committee;

July 9, 1997 by Benefit Plans Review Committee;
December 30, 1997 by Director of Personnel;

March 18, 1998 by Director of Personnel;

January 13, 1999 by Board of Directors;
July 14, 1999 by Board of Directors;

March 7, 2000 by Benefit Plans Review Committee;

February 6, 2001 by Human Resources Committee;
March 22, 2001 by Human Resources and Compensation Committee; and
June 18, 2001 by Director of Business Planning and Support

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SUPPLEMENTAL RETIREMENT PROGRAM FOR
MANAGEMENT PROFIT-SHARING ASSOCIATES OF
J. C. PENNEY COMPANY, INC.

Adopted Effective January 1, 1978

Amended and Restated Effective August 1, 1995

As Amended Through June 18, 2001

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SUPPLEMENTAL RETIREMENT PROGRAM FOR MANAGEMENT PROFIT-SHARING ASSOCIATES OF J. C. PENNEY COMPANY, INC.

Adopted Effective January 1, 1978

Amended and Restated Effective August 1, 1995

As Amended Through June 18, 2001

ARTICLE I. INTRODUCTION

The Supplemental Retirement Program for Management Profit-Sharing Associates of J. C. Penney Company, Inc. is a plan maintained primarily for the purpose of providing deferred compensation for a select group of management or highly compensated associates. This document amends and restates the Plan, originally adopted effective January 1, 1978, effective August 1, 1995.

With respect to any Eligible Management Associate who terminated employment prior to August 1, 1995, benefits payable to such Eligible Management Associates are determined pursuant to the terms and conditions of the Supplemental Retirement Program for Management Profit-Sharing Associates of J. C. Penney Company, Inc. in effect as of July 31, 1995.

ARTICLE II. DEFINITIONS

For the purpose of this Plan the following terms shall have the following meanings:

Associate: Any person who is employed by a Controlled Group Member if the
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relationship between a Controlled Group Member and such person would constitute the legal relationship of employer and employee, including an officer who may or may not be a director, but excluding a director serving only in that capacity, and excluding any employee of a Controlled Group Member substantially all the operations of which are outside the United States unless United States Social Security contributions are made on behalf of such employee.

Average Final Compensation: The average annual Compensation of an Eligible
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Management Associate in respect of the three calendar years of his highest Compensation determined by taking into account (a) the Compensation attributable to the Eligible Management Associate's Credited Service in the calendar year in which occurs such Early Retirement Date, Traditional Retirement Date, or Delayed Retirement Date, as the case may be, and (b) the Compensation during either of the following, whichever is appropriate:

(i) the 9 full calendar years of Final Service immediately preceding the calendar year in which occurs the Eligible Management Associate's Early Retirement Date, Traditional Retirement Date, or Delayed Retirement Date, as the case may be; or

(ii) if such Eligible Management Associate has less than 9 full calendar years of Final Service, the entire number of full calendar years of such Final Service immediately preceding the calendar year in which occurs the Eligible Management Associate's Early Retirement Date, Traditional Retirement Date, or Delayed Retirement Date, as the case may be.

If such Eligible Management Associate has less than three full calendar years of Final Service prior to the calendar year in which occurs his Early Retirement Date, Traditional Retirement Date, or Delayed Retirement Date, Average Final Compensation shall mean the aggregate Compensation earned with respect to the Eligible Management Associate's Final Service immediately preceding the calendar year in which occurs his Early Retirement Date, Traditional Retirement Date or Delayed Retirement Date, divided by the total number of full months of such Final Service, multiplied by 12.

Benefit Commencement Date: The date upon which payment of a Pension Plan
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Participant's retirement benefit is scheduled to begin pursuant to the terms of the Pension Plan.

Benefit Restoration Plan: J. C. Penney Company, Inc. Benefit Restoration
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Plan, as amended from time to time.

Benefits Administration Committee: The committee appointed by the Human
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Resources Committee and authorized by Article VI to administer the Plan.

Board of Directors: Board of Directors of the Company.

Code: The Internal Revenue Code of 1986, as amended from time to time.

References to "regulations" are to regulations published by the Secretary of the Treasury under applicable provisions of the Code, unless otherwise expressly indicated.

Company: J. C. Penney Company, Inc., a Delaware corporation. The term

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"Company" will also include any successor employer, if the successor employer expressly agrees in writing as of the effective date of succession to continue the Plan.

Company Account(s): The account(s) of that name and any successor
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account(s) and/or fund(s) established and maintained pursuant to the Savings and Profit-Sharing Retirement Plan prior to January 1, 1999, the Savings, Profit-Sharing and Stock Ownership Plan, and the Mirror Savings Plans in which are reflected all Company contributions allocated to an Eligible Management Associate together with all assets attributable thereto.

Compensation: The total cash remuneration (including Profit Incentive
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Compensation, and whether received or deferred (i) Performance Unit Plan payments and (ii) EVA Performance Plan payments) paid to an Associate by the Company or a Participating Employer, or, for the purpose of determining Average Final Compensation only, by a Controlled Group Member, that qualifies as wages as defined in Code Section 3401(a), determined without regard to any reduction for workers' compensation and state disability insurance reimbursements, and all other compensation payments for which the Company or a Participating Employer or other Controlled Group Member is required to furnish the Associate a written statement under Code Sections 6041(d), 6051(a)(3) and 6052, reduced by the following items:

(a) all expatriate and foreign service allowances, including without limitation cost-of-living adjustments;

(b) tax gross-up payments;

(c) noncash prizes;

(d) income attributable to employer-provided group term life insurance;

(e) income recognized with respect to stock options and stock awards;

(f) tax equalizations payments;

(g) taxable and nontaxable relocation payments;

(h) payments of deferred amounts under the EVA Performance Plan or any other nonqualified plan of deferred compensation;

(i) special payments made to an Associate under the Performance Unit Plan or the EVA Performance Plan in the year of retirement or disability;

(j) severance pay, outplacement pay, and/or critical pay;

(k) third-party disability payments (State of New York);

(l) home sale bonus payments;

(m) mortgage interest assistance payments;

(n) senior management perquisites, tax preparation fees, and allowances for travel from Alaska and Hawaii;

(o) legal settlements constituting back pay or other wage payments;

(p) non-associate travel reimbursements;

(q) clothing allowance payments; and

(r) payments made pursuant to a non-compete agreement.

In addition, Compensation includes any contributions made by a Participating Employer or other Controlled Group Member on behalf of an Associate pursuant to a deferral election under any employee benefit plan containing a cash or deferred arrangement under Code Section 401(k), and any amounts that would have been received as cash but for an election to receive benefits under a cafeteria plan meeting the requirements of Code Section 125, and amounts deferred by an Associate under the Deferred Compensation Plan and the Mirror Savings Plans.

Each annual payment to an Associate (i) from the Performance Unit Plan, (ii) from the EVA Performance Plan, and (iii) of Profit Incentive Compensation shall be deemed to have been made in the calendar year immediately preceding the year in which payment was actually made.

For all purposes under the Plan, the Benefits Administration Committee, in its discretion, may exclude additional items from "Compensation" under the Plan.

An Associate who is in the service of the Armed Forces of the United States during any period in which his reemployment rights are guaranteed by law will be considered to have received the same rate of Compensation during his absence he was receiving immediately prior to his absence, provided he returns to employment with a Controlled Group Member within the time such rights are guaranteed.

Controlled Group: The Company and all other corporations, trades and businesses, the employees of which, together with employees of the Company, are required by the first sentence of subsection (b) , by subsection (c) , by subsection (m) , or by subsection (o) of Code section 414 to be treated as if they were employed by a single employer.

Controlled Group Member: Each corporation or unincorporated trade or business that is or was a member of a Controlled Group, but only during such period as it is or was such a member.

Credited Service: The years of credited service, up to a total maximum of 40 years, credited to an Eligible Management Associate (a) under the terms of the Pension Plan, determined without regard to any yearly limitation imposed by the terms of the Pension Plan (excluding any periods of Disability Service), and (b) under Paragraph (1) of Article VIII.

Deferred Compensation Plan: J. C. Penney Company, Inc. 1995 Deferred Compensation Plan, as amended from time to time, as in existence prior to January 1, 1999 before being merged into the J. C. Penney Company, Inc. Mirror Savings Plan II effective January 1, 1999.

Deferred Performance Unit Plan: J. C. Penney Company, Inc. Deferred Compensation Plan originally effective February 1, 1985 and amended to prohibit further deferrals effective January 26, 1991.

Delayed Retirement Date: The first day of the month immediately following the date on which an Eligible Management Associate Separates from Service after having attained Traditional Retirement Age.

Disability Service: The years of disability service credited to an Eligible Management Associate under the terms of the Pension Plan.

Early Retirement Age: The first date on which an Eligible Management Associate has attained age 55 and has completed at least 15 years of Service.

Early Retirement Date: The first day of the month immediately following the date on which an Eligible Management Associate Separates from Service after having attained Early Retirement Age but before attainment of such Eligible Management Associate's Traditional Retirement Age.

Eligible Management Associate: An Associate (excluding an Associate who

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retired from (i) a Participating Employer before January 1, 1978, (ii) J. C. Penney Life Insurance Company or J. C. Penney Casualty Insurance Company on or after January 1, 1990, or (iii) Thrift Drug, Inc. on or after April 1, 1991) classified under the Company's personnel policy as a management associate and who is participating in a Profit Incentive Compensation program or other profit sharing compensation program (other than the Savings and Profit-Sharing Retirement Plan or the Savings, Profit-Sharing and Stock Ownership Plan) of a Participating Employer on his Traditional Retirement Date or Early Retirement Date. Notwithstanding the preceding sentence, the Benefits Administration Committee reserves the right to waive, in its discretion, one or more of the requirements of this paragraph on a case by case basis for any Associate age 55 who was participating in a Profit Incentive Compensation program on December 31, 1995.

ERISA: Employee Retirement Income Security Act of 1974, as amended from
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time to time.

Estimated Social Security Benefit: (1) For purposes of the benefit provided
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in Paragraph (3) of Article IV the monthly benefit the Eligible Management Associate would receive under the Social Security Act at age 62 based on the following assumptions:

(i) All compensation earned (a) prior to the later of 1951 or the year the Eligible Management Associate attains age 22 or (b) in the year in which the Eligible Management Associate Separates from Service if such separation occurs prior to the last day of the calendar year will be disregarded;

(ii) Earnings for the years prior to the Eligible Management Associate's employment with the Participating Employer are in the same proportion to the Taxable Wage Base in effect for the prior years as that which the first full year of earnings bore to the Taxable Wage Base in existence at that time;

(iii) Earnings are averaged over a number of full calendar years as determined by the following:

Year of Birth	Number of Full Calendar Years
1925	31
1926	32
1927	33
1928	34
After 1928	35

If the Eligible Management Associate's total calendar years of earnings determined under clauses (i) and (ii) above exceed the number of full years of earnings that are to be averaged based on the year of such Eligible Management Associate's birth, one or more of the Eligible Management Associate's lowest years of earnings will be disregarded until his total years of earnings equals the number of full years of earnings that are to be averaged based on the year of such Eligible Management Associate's birth.

(iv) Social Security indexing factors used are those actually used by the Social Security Administration in determining the Eligible Management Associate's Social Security benefit, and if those factors are not available, the latest published factors will be used.

(2) For Eligible Management Associates who reach Traditional Retirement Age on or prior to August 1, 2000, for purposes of clause (iii) of Subparagraph (b) of Paragraph (1) of Article IV the lesser of the benefit determined under (A) or (B) below:

(A) The product of (a) multiplied by (b) with (a) being the monthly benefit the Eligible Management Associate would receive under the Social Security Act at age 62, or if retirement is later than age 62, the benefit payable at actual retirement, based on the following assumptions:

(i) The benefit is based solely on the compensation earned during the Eligible Management Associate's calendar years of service and disregarding the Eligible Management Associate's last calendar year of service if less than a full year and disregarding completely all other years;

(ii) Earnings are averaged over the number of years of actual credited service, as defined in the Pension Plan;

(iii) Social Security indexing factors used are those actually used by the Social Security Administration in determining the Eligible Management Associate's social security benefit, and if those factors are not available, the latest published factors will be used;

and (b) being a fraction, not exceeding one, the numerator of which is the Eligible Management Associate's years of credited service, as defined by the Pension Plan and the denominator of which is 30.

(B) The monthly benefit the Eligible Management Associate would receive under the Social Security Act at age 62, or if retirement is later than age 62, the benefit payable at actual retirement, based on the following assumptions:

(i) All compensation earned (a) prior to the later of 1951 or the year the Eligible Management Associate attains age 22 or (b) in the year in which the Eligible Management Associate Separates from Service if such separation occurs prior to the last day of the calendar year will be disregarded;

(ii) The Eligible Management Associate earned no compensation for calendar years before the Eligible Management Associate was employed by the Participating Employer, which years will be included in the calculation as years of zero earnings;

(iii) Earnings are averaged over a number of full calendar years as determined by the following:

Year of Birth	Number of Full Calendar Years
1925	31
1926	32
1927	33
1928	34
After 1928	35

If the Eligible Management Associate's total calendar years of earnings determined under clauses (i) and (ii) above exceed the number of full years of earnings that are to be averaged based on year of such Eligible Management Associate's birth, one or more of the Eligible Management Associate's lowest years of earnings will be disregarded until his total years of earnings equals the number of full years of earnings that are to be averaged based on the year of such Eligible Management Associate's birth.

(iv) Social Security indexing factors used are those actually used by the Social Security Administration in determining the Eligible Management Associate's Social Security benefit, and, if those factors are not available, the latest published factors will be used.

For Eligible Management Associates who reach Traditional Retirement Age after August 1, 2000, for purposes of clause (iii) of Subparagraph (b) of

Paragraph (1) of Article IV, Estimated Social Security Benefit shall be determined under (B) above.

EVA Performance Plan: The J. C. Penney Company, Inc. 1998 EVA Performance Plan, as amended from time to time.

Final Service: An Eligible Management Associate's years of Credited Service plus, if he becomes an Associate of a Controlled Group member that is not a Participating Employer, the years of Service with such Controlled Group Member that are credited to the Associate after he ceases earning Credited Service. Calendar years that include a period of Disability Service will not be included in the determination of Final Service. Calendar years of Service or of Credited Service that are interrupted by a Separation from Service or by one or more years in which the Eligible Management Associate did not receive Compensation for the entire year will be considered to be consecutive for purposes of determining consecutive years of Final Service.

Human Resources and Compensation Committee: The Human Resources and Compensation Committee of the Board of Directors of the Company.

Human Resources Committee: The Human Resources Committee of the Management Committee of the Company.

Interest Income Account(s): The account(s) of that name and any successor account(s) and/or fund(s) established and maintained pursuant to the Savings and Profit-Sharing Retirement Plan and/or the Savings, Profit-Sharing and Stock Ownership Plan.

Matched Deposits: An Eligible Management Associate's deposits, not in excess of 6% of his compensation (as defined in the Savings and Profit-Sharing Retirement Plan, the Savings, Profit-Sharing and Stock Ownership Plan and the Mirror Savings Plans), made pursuant to the Savings and Profit-Sharing Retirement Plan, the Savings, Profit-Sharing and Stock Ownership Plan, and the Mirror Savings Plans.

Mirror Savings Plans: The J. C. Penney Company, Inc. Mirror Savings Plan I, the J. C. Penney Company, Inc. Mirror Savings Plan II, and the J. C. Penney Company, Inc. Mirror Savings Plan III.

Participating Employer: The Company and any other Controlled Group Member or organizational unit of the Company or of a Controlled Group Member which is designated as a Participating Employer under the Plan by the Human Resources Committee; provided, however, that if such designation would substantially increase the cost of the Plan to the Company, such designation shall be subject to the sole discretion of the Board of Directors.

Penney Stock (Company) Account: The account(s) of that name and any successor account(s) and/or fund(s) established and maintained pursuant to the Savings and Profit-Sharing Retirement Plan and/or the Savings, Profit-Sharing and Stock Ownership Plan.

Pension Plan: J. C. Penney Company, Inc. Pension Plan, as amended from time to time.

Pension Plan Participant: An Associate or former Associate who is treated as a participant under the Pension Plan.

Performance Unit Plan: J. C. Penney Company, Inc. 1984 Performance Unit

Plan, as amended from time to time, as in existence prior to February 1, 1998 when terminated effective January 31, 1998.

Plan: Supplemental Retirement Program for Management Profit-Sharing
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Associates of J. C. Penney Company, Inc., as amended from time to time.

Profit Incentive Compensation: The share of store profits to which an
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Associate is entitled as a store manager or as a member of a store's management staff; the management incentive compensation to which a management Associate is entitled; the regional or district incentive compensation to which a regional or district office Associate is entitled; and, if so determined by the Human Resources Committee, any other compensation based on profits (excluding any Company contributions to and benefits under the Savings and Profit-Sharing Retirement Plan and Savings, Profit-Sharing and Stock Ownership Plan) to which an Associate of a Participating Employer, or, for the purpose of determining Average Final Compensation only, a Controlled Group Member who is not a Participating Employer, is entitled.

Savings and Profit-Sharing Retirement Plan: J. C. Penney Company, Inc.

Savings and Profit-Sharing Retirement Plan, as amended from time to time, as in existence prior to January 1, 1999 before being merged into the Savings, Profit-Sharing and Stock Ownership Plan effective January 1, 1999.

Savings, Profit-Sharing and Stock Ownership Plan: J. C. Penney Company,
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Inc. Savings, Profit-Sharing and Stock Ownership Plan, as amended from time to time.

Separation from Service or Separates from Service: Termination of Service
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after having attained age 55 by reason of disability, discharge, retirement (including resignation), or death. Termination of Service due to a disability is deemed to occur upon the later of termination of the Eligible Management Associate's sick pay or at the end of any leave of absence granted the Eligible Management Associate.

Service: The period of time credited to an Eligible Management Associate as
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service under the terms of the Pension Plan.

Spouse: The individual to whom an Eligible Management Associate is legally
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married under the laws of the State (within the meaning of section 3(10) of ERISA) in which the Eligible Management Associate is domiciled, or if domiciled outside the United States, under the laws of the State of Texas.

Tax Deferred Deposits: Deposits made under the Savings and Profit-Sharing
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Retirement Plan and/or the Savings, Profit-Sharing and Stock Ownership Plan which were subject to a cash or deferred election under Section 401(k) of the Code and designated as Tax Deferred Deposits pursuant to the terms of the Savings and Profit-Sharing Retirement Plan and/or the Savings, Profit-Sharing and Stock Ownership Plan.

Taxed Deposits: An Eligible Management Associate's after-tax deposits made
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under the Savings and Profit-Sharing Retirement Plan and/or the Savings, Profit-Sharing and Stock Ownership Plan and designated as Taxed Deposits pursuant to the terms of the Savings and Profit-Sharing Retirement Plan and/or the Savings, Profit-Sharing and Stock Ownership Plan.

Traditional Retirement Age: The date on which an Eligible Management
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Associate attains age 60.

Traditional Retirement Date: The first day of the month immediately
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following the date an Eligible Management Associate attains Traditional Retirement Age if such Eligible Management Associate Separates from Service on such date.

Valuation Date: With respect to the Company Accounts, excluding the Penney Stock (Company) Account, each day of the calendar year. With respect to the Penney Stock (Company) Account(s), each day of a calendar year on which the New York Stock Exchange is open. If the New York Stock Exchange is closed, the Penney Stock (Company) Account(s) will have the same value as of the last immediately preceding day the Exchange was open.

ARTICLE III. PARTICIPATION

Each Eligible Management Associate shall participate in the Plan as of such Eligible Management Associate's Early Retirement Date, Traditional Retirement Date, or Delayed Retirement Date, as the case may be; provided, however, that such Eligible Management Associate who has a Separation from Service in the month of December shall commence participation in the Plan as of the last day of that December. Notwithstanding the preceding sentence, and except as otherwise provided in Paragraph (9) of Article IV, effective on and after January 1, 1996, any Associate who, on December 31, 1995, was not classified as management or who was not in a Profit Incentive Compensation program shall not be considered an Eligible Management Associate and shall not participate in the Plan. In addition, effective as of the Closing (as such term is defined in Paragraph (9) of Article IV), the Eligible Management Associates whose names are set forth on Appendix II to the Plan shall cease to participate in the Plan and shall not be entitled to a benefit under any provision of the Plan. In the event an Eligible Management Associate whose name is set forth on Appendix II is employed after the Closing by the Company or any Controlled Group Member, such person will not thereafter be an Eligible Management Associate and will not participate in the Plan on or after the date of such employment.

ARTICLE IV. BENEFITS

(1) At Early, Traditional, or Delayed Retirement Date: The annual amount of benefit payable from the Plan in monthly installments to an Eligible Management Associate commencing on such Eligible Management Associate's Early Retirement Date, Traditional Retirement Date, or Delayed Retirement Date, as the case may be, and terminating with the installment payable on the first day of the month in which such Eligible Management Associate dies, shall be:

(a) the sum of

(i) 3% of the Eligible Management Associate's Average Final Compensation multiplied by such Eligible Management Associate's Credited Service not in excess of 10 years;

plus

(ii) 1% of the Eligible Management Associate's Average Final Compensation multiplied by such Eligible Management Associate's Credited Service in excess of 10 years but not in excess of 30 years;

plus

(iii) 1/2 of 1% of the Eligible Management Associate's Average Final Compensation multiplied by such Eligible Management Associate's Credited Service in excess of 30 years but not in excess of 40 years;

less

(iv) 1/3 of 1% for each month by which the Eligible Management Associate's Early Retirement Date shall precede such Eligible Management Associate's Traditional Retirement Date multiplied by the Eligible Management Associate's Average Final Compensation;

less

(b) the sum of

(i) the single-life, no-death-benefit annuity equivalent of (a) the annual amount of pension payable pursuant to the Pension Plan (disregarding Disability Service) assuming that the Eligible Management Associate's Benefit Commencement Date is the first day of the month immediately following the date of such Eligible Management Associate's Separation from Service, (b) the annual amount payable pursuant to the terms of a domestic relations order qualified under Code Section 414(p), (A) from the Pension Plan and (B) from benefits accrued pursuant to Paragraph (1) of Article IV of the Benefit Restoration Plan and (c) the accrued benefit payable pursuant to Paragraph (1) of Article IV of the Benefit Restoration Plan;

plus

(ii) the single-life, no-death-benefit annuity equivalent, as of the Valuation Date which is the next trading date of the New York Stock Exchange following the Eligible Management Associate's Separation from Service, of

(a) the value of all assets allocated to the Eligible Management Associate in the Company Account(s) under the Savings, Profit-Sharing and Stock Ownership Plan, including such assets allocated to him under

the Savings and Profit-Sharing Retirement Plan prior to January 1, 1999; and

(b) the value of any additional assets which would have been allocated to the Eligible Management Associate's Company Account(s) under the Savings and Profit-Sharing Retirement Plan, the Savings, Profit-Sharing and Stock Ownership Plan, and the Mirror Savings Plans, had such Eligible Management Associate made all further permissible Matched Deposits up to 6% of his compensation (as such term is defined in each said plan) under each said plan and had he not made any withdrawals of taxed Matched Deposits from the plans prior to January 1, 1989; and

(c) the value of dividends attributable to units in his Company Account (within the meaning of the Savings, Profit-Sharing and Stock Ownership Plan) and distributed to the Eligible Management Associate pursuant to Section 9.04 of the Savings, Profit-Sharing and Stock Ownership Plan; and

(d) the value of any amounts payable pursuant to the terms of a domestic relations order qualified under Code Section 414(p) out of such Eligible Management Associate's Company Account(s) from the Savings and Profit-Sharing Retirement Plan and the Savings, Profit-Sharing and Stock Ownership Plan; and

(e) the value of benefits payable to the Eligible Management Associate (or another person on behalf of the Eligible Management Associate from (A) his annual benefit limit make-up account pursuant to paragraph (2) of Article IV of the Benefit Restoration Plan prior to January 1, 1999, and (B) his Company Accounts under the Mirror Savings Plans;

plus

(iii) 50% (less 1/4 of 1% for each month by which the Eligible Management Associate's Early Retirement Date shall precede such Eligible Management Associate's Traditional Retirement Date) of the Eligible Management Associate's Estimated Social Security Benefit;

plus

(iv) in the case of an Eligible Management Associate whose Credited Service is increased pursuant to Paragraph (1) of Article VIII, the amount of annual retirement benefit (or any commutations thereof or substitutions therefor) payable to an Eligible Management Associate from any other employer, but only to the extent determined by the

Benefits Administration Committee, expressed in the form of a single-life, no-death-benefit annuity equivalent (as determined by the Benefits Administration Committee), commencing on such Eligible Management Associate's Separation from Service.

In determining the amount referred to in clause (ii) of subparagraph (b) of this Paragraph (1) of this Article IV, it shall be deemed that:

(i) an Eligible Management Associate who has not, at all times when he was eligible to participate in the Savings and Profit-Sharing Retirement Plan and the Savings, Profit-Sharing and Stock Ownership Plan and the Mirror Savings Plans, contributed an amount sufficient to share, to the maximum extent, in the Company contribution to such Plan or such predecessor plan has so contributed and that an Eligible Management Associate who did not share, to the maximum extent, in Company contributions for which he was eligible under the Savings and Profit-Sharing Retirement Plan due to any withdrawal of taxed Matched Deposits, be deemed not to have any such withdrawal;

(ii) the share of any such Company contribution deemed to have been credited to an Eligible Management Associate pursuant to this Paragraph for plan years ending before January 1, 1989 shall be deemed to have experienced the same rate of dividends, earnings, and change in value as the actual rate of dividends, earnings, and change in value experienced by the Penney Stock (Company) Account under the Savings and Profit-Sharing Retirement Plan from the time such share of a Company contribution is deemed to have been credited for said plan years and that the value of this said amount as of December 31, 1988 under the Savings and Profit-Sharing Retirement Plan, plus the share of any such Company contribution deemed to have been credited to an Eligible Management Associate pursuant to this Paragraph for plan years beginning after December 31, 1988 shall be deemed to have experienced the same rate of earnings and change in value experienced by the Interest Income Account under the Savings, Profit-Sharing and Stock Ownership Plan from the time such share of a Company contribution is deemed to have been credited for said plan years;

(iii) the value of the amount of the Company Account(s) and annual limit make-up account paid out pursuant to a domestic relations order qualified under Section 414(p) of the Code deemed to have been credited to an Eligible Management Associate pursuant to this Paragraph shall be deemed to have experienced the same rate of earnings and change in value experienced by the Interest Income Account under the Savings, Profit-Sharing and Stock Ownership Plan from the time such amount is deemed to have been credited; and

(iv) the rates used to determine the single-life, no-death-benefit annuity equivalent shall be the rates that the Benefits Administration Committee, in its discretion, shall determine.

(2) Minimum Benefit: In no event will the amount payable to an Eligible
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Management Associate under Paragraph (1) of this Article IV at such Eligible Management Associate's Traditional Retirement Date or Delayed Retirement Date, as the case may be, be less than the difference between:

(A) the amount of pension payable pursuant to the early retirement pension benefit provision of the Pension Plan (determined without regard to any

compensation or benefit limits imposed by the Code) that would be applicable if the Eligible Management Associate elected to receive benefits pursuant to that provision prior to such Eligible Management Associate's normal retirement date, as defined in the Pension Plan (disregarding Disability Service, if any, and including as Credited Service any increase granted under Article VIII hereof) assuming the Eligible Management Associate's Benefit Commencement Date is the first day of the month immediately following the day of such Eligible Management Associate's Separation from Service under this Plan, and

(B) the amount of pension payable pursuant to the early retirement pension benefit provision of the Pension Plan (determined without regard to any compensation or benefit limits imposed by the Code) that would be applicable if the Eligible Management Associate did not elect to receive benefits pursuant to that provision prior to the Eligible Management Associate's normal retirement date, as defined in the Pension Plan (disregarding Disability Service, if any, and including as Credited Service any increase granted under Article VIII hereof).

In no event will the amount payable under Paragraph (1) of this Article IV to an Eligible Management Associate who:

(a) Separates from Service on his Early Retirement Date within one year prior to his Traditional Retirement Date and who is granted additional Credited Service pursuant to Paragraph (1) of Article VIII at his Early Retirement Date, or

(b) Separates from Service because of a reduction in force and is designated as an individual termination by the Director of Personnel in accordance with Paragraph (1) of Article VIII and who is granted deemed additional months of Credited Service thereunder be less than the difference between

(A) the amount of pension that would be payable (determined without regard to any compensation or benefit limits imposed by the Code) at such Eligible Management Associate's normal retirement date, as defined by the Pension Plan (disregarding Disability Service, if any, and including as Credited Service, as defined by the Pension Plan, any increase granted under Article VIII hereof), and

(B) the amount of pension payable pursuant to the early retirement pension benefit provision of the Pension Plan (determined without regard to any compensation or benefit limits imposed by the Code) that would be applicable if the Eligible Management Associate elected to receive benefits pursuant to that provision prior to such Eligible Management Associate's normal retirement date, as defined by the Pension Plan (disregarding Disability Service, if any, and excluding as Credited Service any increase granted under Article VIII hereof) assuming the Eligible Management Associate's Benefit Commencement Date is the first day of the month

following such associate's Separation from Service, but in no event prior to the date such associate reaches age 59.

(3) Social Security Make-up: In addition to any other benefit payable under
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this Plan, an annual benefit equal to the Estimated Social Security Benefit shall be payable in monthly installments to an Eligible Management Associate commencing on such Eligible Management Associate's Traditional Retirement Date or Delayed Retirement Date up to age 62, as the case may be, (or, for an Eligible Management Associate who Separates from Service within one year prior to his Traditional Retirement Date and who is granted any adjustment pursuant to either clause (i) or (ii) of Paragraph (1) of Article VIII, on his Early Retirement Date) and terminating with the installment payable on the first day of the month in which such Eligible Management Associate dies or with the installment payable on the first day of the month prior to the month in which the Eligible Management Associate first becomes eligible for the primary old age benefit payable under the United States Social Security laws by reason of disability or attainment of age 62, whichever comes first.

An Eligible Management Associate, who, on his Separation from Service, is entitled to disability benefits under the United States Social Security laws, shall not be eligible for any Social Security make-up benefits provided for in this paragraph.

(4) Death Benefit: If an Eligible Management Associate has elected a form
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of payment with a guaranteed number of payments and the Eligible Management Associate dies before receiving all benefits payable under that option, remaining payments will be made to the person designated by the Eligible Management Associate as his beneficiary at the time the form of payment was selected.

If an Eligible Management Associate is married at the time such Eligible Management Associate Separates from Service by reason of death after attaining Early Retirement Age, or if an Eligible Management Associate who has Separated from Service after attaining Early Retirement Age and who is married at the time of his death, dies before payment has begun under the Plan, such Eligible Management Associate's Spouse will receive the benefit that would have been payable if the Eligible Management Associate had a Separation from Service immediately prior to such Eligible Management Associate's death (if he was an active Associate on the date of his death), and had begun to receive benefits immediately prior to his death in the form of a 100% (75% if death occurs prior to January 1, 1996) joint and survivor annuity without payment certain with the Spouse as the beneficiary.

(5) Life Insurance Coverage: Commencing on an Eligible Management Associate's Traditional Retirement Date or Delayed Retirement Date, as the case may be, and ending on such Eligible Management Associate's attainment of age 70, the Company will continue to provide an Eligible Management Associate who has at least 10 years of uninterrupted employment with a Participating Employer with term life insurance coverage at Company expense on a decreasing coverage basis.

The amount of coverage to be provided into retirement shall be equal, at such Eligible Management Associate's Traditional Retirement Date, to 100% of the amount of coverage being provided to him at Company expense immediately prior to the

attainment of his Traditional Retirement Age reduced to 90%, 80%, 70%, 60%, 50%, 40%, 30%, 20%, and 10% of such amount of coverage on the first day of the month following his attainment of age 61, 62, 63, 64, 65, 66, 67, 68, and 69, respectively.

The amount of coverage to be provided at a Delayed Retirement Date shall be the applicable percentage based upon the Eligible Management Associate's age on such Delayed Retirement Date multiplied by the amount of coverage being provided to him at Company expense immediately prior to his Delayed Retirement Date and decreasing thereafter as provided in the preceding sentence.

If, on the Eligible Management Associate's Traditional Retirement Date or Delayed Retirement Date, as the case may be, such Eligible Management Associate is already covered by term life insurance under the Company's term life insurance plan on account of the Eligible Management Associate's total disability, such Eligible Management Associate shall not be eligible for any term life insurance coverage provided for in this paragraph. Benefits payable under this Plan will be paid to the beneficiary designated by the Eligible Management Associate as soon as practicable after receipt of a properly submitted claim.

A Participant whose group term life insurance coverage under the Plan terminates because of his attainment of age 70 will have the right to convert his group term life insurance coverage to an individual policy to the extent, and only to the extent, permitted under the group policy applicable to the Participant. Any election to convert to individual coverage must be made within 31 days after the Participant's coverage under the Plan terminates and must be made in accordance with all requirements specified in such policy. The amount of coverage that may be converted shall be the amount in effect immediately before the Participant attained age 70.

(6) Effect of Certain Payments made in December 1992: In the event the Company, in its discretion, made payments to a current or former Eligible Management Associate on or before December 31, 1992 under the Company's Profit Incentive Compensation program and under the Performance Unit Plan and such payments were attributable to the Company's fiscal year ending on January 30, 1993, this Paragraph shall apply. The effect of such payments on the benefits

payable to such individual under the Pension Plan and under the Savings, Profit-Sharing and Stock Ownership Plan shall be determined with respect to whether an increase or decrease in benefits resulted. Benefits payable under this Plan to such current or former Eligible Management Associate shall be adjusted (a) to offset any such increase in benefits and/or (b) to restore any such decrease in benefits so that no advantage or detriment, as the case may be, shall be experienced by any such current or former Eligible Management Associate with respect to total retirement benefits under the above-referenced Plans and this Plan.

(7) Special Rules for VERP Plan Participants: The following special rules shall apply as applicable to an Eligible Management Associate who is a participant in the J. C. Penney Company, Inc. Voluntary Early Retirement Plan ("VERP Plan") or who is eligible for benefits under Section 4.17(a) of the Pension Plan.

(a) If the Eligible Management Associate has attained at least age 55 but not age 60 as of April 30, 1998 and has compensation as determined under Section 4.17(d) the Pension Plan for the 1997 calendar year in excess of $80,000 but not more than $87,000, he shall be entitled to receive a benefit in lieu of the Minimum Benefit described in Paragraph (2) of Article IV equal to (i) minus (ii) below:

(i) The annual enhanced normal retirement benefit that would have been payable to the Eligible Management Associate from the Pension Plan pursuant to Section 4.17(b) of the Pension Plan but for the restrictions and limitations of said Section 4.17(b), calculated as follows:

(A) For purposes of determining the Eligible Management Associate's normal retirement benefit and supplemental retirement benefit that would have been payable under the Pension Plan pursuant to Sections 4.1(b) and 4.1(e), 4.2(b) and 4.2(e), 4.3(b) and 4.3(e), or Section 4.3A(b) and 4.3A(e), three additional years of Credited Service, up to a maximum of 35 such years, will be added to his Credited Service determined as if he had Separated from Service on December 31, 1997; and such retirement benefit will be unreduced for early commencement of benefits. In no event will more than 10 years of Credited Service be taken into account for purposes of determining his enhanced supplemental retirement benefit.

(B) The Eligible Management Associate's minimum and protected retirement benefits determined under the Pension Plan pursuant to Sections 4.1(c), 4.2(c), 4.3(c), 4.3A(c), and 4.4; his supplemental retirement benefit calculated under Sections 4.1(e), 4.2(e), 4.3(e) or 4.3A(e), which is to be added to his minimum benefit; and his Recalculated Pension Benefit (as defined in the Pension Plan) under Section 4.15 will be calculated without regard to the provisions of this subparagraph (i), and the applicable early retirement factors set forth in Section 4.5 of the Pension Plan will be applied.

(C) The Participant's enhanced retirement benefit will be the greater of the benefit calculated under clause (A) or the benefit under clause (B).

(ii) The annual enhanced normal retirement benefit actually payable to the Eligible Management Associate pursuant to Section 4.17(c) of the Pension Plan subject to the applicable early retirement factors set forth in Section 4.5 of the Pension Plan, calculated as follows:

(A) For purposes of determining the Eligible Management Associate's normal retirement benefit and supplemental retirement benefit under the Pension Plan pursuant to Sections 4.1(b) and 4.1(e), 4.2(b) and 4.2(e), 4.3(b) and 4.3(e), or Section 4.3A(b) and 4.3A(e), three additional years of Credited Service, up to a maximum of 35 such years, will be added to his Credited Service determined as if the Participant had Separated from Service on December 31, 1997; five years will be added to his age as of April 30, 1998; and the applicable early retirement factors set forth in Section 4.5 of the

Pension Plan will be applied based on his enhanced age.

In no event will more than 10 years of Credited Service be taken into account for purposes of determining his enhanced supplemental retirement benefit.

(B) The Eligible Management Associate's minimum and protected retirement benefits determined under the Pension Plan pursuant to Sections 4.1(c), 4.2(c), 4.3(c), 4.3A(c), and 4.4; his supplemental retirement benefit calculated under Sections 4.1(e), 4.2(e), 4.3(e) or 4.3A(e), which is to be added to his minimum benefit; and his Recalculated Pension Benefit (as defined in the Pension Plan) under Section 4.15 will be calculated without regard to the provisions of this subparagraph (ii), and the applicable early retirement factors set forth in Section 4.5 of the Pension Plan will be applied.

(C) The Participant's enhanced retirement benefit will be the greater of the benefit calculated under clause (A) or the benefit under clause (B).

(b) If the Eligible Management Associate has attained at least age 60 but not age 65 as of April 30, 1998 and has compensation as determined under the Pension Plan for the 1997 calendar year of $87,000 or less, to avoid duplication of benefits otherwise payable from the Plan and the Pension Plan,

(i) the Minimum Benefit described in Paragraph (2) of Article IV shall be offset by the enhanced retirement benefit paid to such Eligible Management Associate pursuant to Section 4.17(b) of the Pension Plan calculated as described in paragraph (7)(a)(i)(A), (B) and (C) above, and

(ii) if the monthly Social Security Make-up benefit described in Paragraph (3) of Article IV is payable to such Eligible Management Associate, the benefit shall be paid by the Plan only in the amount that exceeds the $1,000 per month social security supplement paid to such Eligible Management Associate pursuant to Section 4.17(f) of the Pension Plan.

(c) An Eligible Management Associate who as of his Separation from Service has attained at least age 60 but has not attained age 62 shall not receive the Social Security Make-up benefit described in paragraph (3) of Article IV of the Plan if he elected to receive the lump sum payment described in subparagraph (b) of Section 3.02 of the VERP Plan.

(d) Benefits payable from the Plan pursuant to this paragraph (7) shall be subject to the provisions of paragraph (2) of Article V regarding optional forms of benefit payments based on the ages of the Eligible Management Associate and his Spouse on December 1, 1997.

(e) An Eligible Management Associate shall be entitled to life insurance coverage under paragraph (5) of Article IV effective on the first day of the month following his Separation from Service by reason of retirement. The amount of such coverage shall be equal to 100% of the amount being provided to him at Company expense immediately prior to his Separation from Service by reason of retirement. Said amount shall be

reduced in accordance with paragraph (5) of Article IV starting with the first day of the month following his attainment of age 61.

(f) In the event an Eligible Management Associate is reemployed by the Company or a Participating Employer and again participates in the Plan, benefits payable under the formula described in Paragraph (1) of Article IV, if any, shall be reduced by the benefits to which the Eligible Management Associate is entitled under the VERP Plan. Benefits payable under the Minimum Benefit described in Paragraph (2) of Article IV or the benefit described in subparagraph (a) above, whichever is applicable, if any, based on the Credited Service attributable to his reemployment, shall be based on his actual age as of his retirement date subsequent to his reemployment date.

(g) [Deleted]

(h) Notwithstanding any other provision of the Plan, an Eligible Management Associate (excluding Officers of the Company) who is entitled to receive a benefit under the Plan pursuant to the formula described in Paragraph (1) of Article IV and who retires as part of the Voluntary Early Retirement Program announced in 1997 shall receive the greater of:

(i) The amount payable under the Plan pursuant to Paragraph (1) of Article IV as of his Early Retirement Date, Traditional Retirement Date, or Delayed Retirement Date, as the case may be (the "Plan Benefit"), or

(ii) The amount derived by subtracting the aggregate benefit payable to the Associate from the Pension Plan and, if applicable, the Benefit Restoration Plan from the benefit communicated to the Associate in the personalized VERP communication materials as the aggregate benefit earned as of January 1, 1998, from the Plan, the Pension Plan and, if applicable, the Benefit Restoration Plan.

(8) Nonduplication of Benefits: The benefits payable to or on behalf of an Eligible Management Associate under the Plan shall not duplicate benefits payable from the Pension Plan, the VERP Plan, the Benefit Restoration Plan, the Mirror Savings Plans, or any separation pay program of the Company or a Participating Employer or a Controlled Group Member. To the extent that any benefits otherwise payable under the Plan are paid from one or more of the plans or programs described in the prior sentence, such benefits under the Plan shall be cancelled.

(9) Benefits for Certain Former Financial Services Plan Participants: The provisions of this Paragraph (9) will become effective on the close of the transactions ("Closing") contemplated by that certain Stock Purchase Agreement among Commonwealth General Corporation, J. C. Penney Company, Inc. and J. C. Penney Direct Marketing Services, Inc. dated as of March 7, 2001, provided that the Closing occurs on or before September 30, 2001.

The Plan hereby assumes the accrued retirement income benefit obligation under the Supplemental Retirement Program for Eligible Management Associates of JCPenney Financial Services (the "Financial Services Plan") for each former Associate

who (i) retired or separated from service prior to the Closing with a right to a retirement income benefit under the Financial Services Plan and who had not begun to receive retirement income benefits from the Financial Services Plan as of the Closing and (ii) whose name is not set forth on Appendix I to the Financial Services Plan, which Appendix is reproduced and attached as Appendix III to the Plan. Each such former Associate will be entitled to a retirement income benefit under this Plan in the amount of such former Associate's Financial Services Plan accrued retirement income benefit and payable in the same form and at the same time as such Financial Services Plan accrued retirement income benefit would have been paid. In addition, the Plan hereby assumes the obligation of the Financial Services Plan to make continued monthly retirement income benefit payments to each former Associate who retired prior to the Closing and had begun to receive retirement income benefits from the Financial Services Plan as of the Closing in the same amount, the same form and at the same time as such former Associate's Financial Services Plan retirement income benefit was being paid.

ARTICLE V. FORM AND COMMENCEMENT OF BENEFIT PAYMENTS

(1) Delayed Commencement of Benefits: An Eligible Management Associate may elect that the commencement of his annual benefit payable under Paragraph (1) or (2) of Article IV be delayed to the first day of any month following his Early Retirement Date, Traditional Retirement Date, or Delayed Retirement Date, as the

case may be (but not beyond the first day of the month in which he attains age 70). In such a case, the amount of annual benefit payable under Paragraph (1) or (2) of Article IV shall be increased by 1/2 of 1% for each month that the commencement of such benefits is delayed.

(2) Optional Forms of Benefit Payment: Except as otherwise provided in this Plan and subject to such rules and regulations as the Benefits Administration Committee may establish from time to time with respect to time and manner of election, an Eligible Management Associate may elect, prior to the commencement of his annual benefit payable under Paragraph (1) or (2) of Article IV, to receive a benefit of equivalent actuarial value (applying factors utilized in the Pension Plan) to such benefit, which may be one of the forms of benefit options described in the Pension Plan. The Benefits Administration Committee has full authority to revise the forms of benefit options available under this Plan.

(3) Small Annuities: If the total benefit payable to an Eligible Management Associate under Paragraph (1) or (2) of Article IV would not provide monthly payments exceeding $100, the benefit shall be converted into an actuarially equivalent lump sum payment (applying the actuarial factors utilized in the Pension Plan). If an Eligible Management Associate who has begun to receive payments under the Plan and who has elected a form of payment with a guaranteed number of payments dies, and if the monthly benefit that becomes payable to the beneficiaries of the Eligible Management Associate does not exceed $100 per beneficiary, the monthly benefit shall be converted into an actuarially equivalent lump sum payment (applying the actuarial factors utilized in the Pension Plan).

ARTICLE VI. ADMINISTRATION

The Benefits Administration Committee will administer the Plan and will have the full authority and discretion to accomplish that purpose, including without limitation, the authority and discretion to:

(i) interpret the Plan and correct any defect, supply any omission or reconcile any inconsistency or ambiguity in the Plan in the manner and to the extent that the Benefits Administration Committee deems desirable to carry on the purpose of the Plan;

(ii) resolve all questions relating to the eligibility of Associates to become Eligible Management Associates and the eligibility of Eligible Management Associates to participate in the Plan;

(iii) determine the amount of benefits payable to Eligible Management Associates and authorize and direct the Company with respect to the payment of benefits under the Plan;

(iv) make all other determinations and resolve all questions of fact necessary or advisable for the administration of the Plan; and

(v) make, amend, and rescind such rules as it deems necessary for the proper administration of the Plan.

The Benefits Administration Committee will keep a written record of its action and proceedings regarding the Plan and all dates, records, and documents relating to its administration of the Plan.

Any action taken or determination made by the Benefits Administration Committee will be conclusive on all parties. No member of the Benefits Administration Committee will vote on any matter relating specifically to such member. In the event that a majority of the members of the Benefits Administration Committee will be specifically affected by any action proposed to be taken (as opposed to being affected in the same manner as each other Eligible Management Associate in the Plan), such action will be taken by the Human Resources Committee.

ARTICLE VII. TYPE OF PLAN

The Plan is a plan which is unfunded. The Plan is maintained by the Company primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees. The Plan shall be construed according to the provisions of ERISA applicable to such plans. Benefits under the Plan (other than the life insurance benefits referred to in Paragraph (5) of Article IV which may be insured) are paid from the general assets of the Company.

In the event that it should subsequently be determined by statute or by regulation or ruling that the Plan is not "a plan which is unfunded and is maintained primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees" within the meaning of sections 201(2), 301(a)(3), 401(a)(1), and 4021(b)(6) of ERISA and section 2520.104-24 of Chapter 29 of the Code of Federal Regulations, participation in the Plan shall be restricted by the Benefits Administration Committee to the extent necessary to assure that it will be such a plan within the meaning of such sections.

ARTICLE VIII. MISCELLANEOUS

(1) Additional Credited Service and Other Adiustments: For all purposes of the Plan, the Credited Service of an Eligible Management Associate may be increased, and with respect to an Eligible Management Associate whose Early Retirement Date is within one year prior to his Traditional Retirement Date, (i) the percentage reduction on account of early retirement referred to in clause (iv) of Subparagraph (a) of Paragraph (1) of Article IV may be decreased or waived, and (ii) the entitlement to and the amount of benefits or coverage referred to in Paragraphs (2), (3), and (5) of Article IV may be accelerated or increased, as the case may be, in the discretion of:

(a) in the case of an Eligible Management Associate other than members of the Company's executive or senior management committee (or a successor committee then in place) described in Subparagraphs (b) and (c) of this Paragraph (1), the Chairman of the Board or the Chief Human Resources Officer;

(b) in the case of an Eligible Management Associate who is a member of the Company's executive or senior management committee but who is not a director of the Company, the Human Resources and Compensation Committee; and

(c) in the case of the Chairman of the Board and an Eligible Management Associate who is a member of the Company's executive or senior management committee and who is also a director of the Company, the Board of Directors.

For all purposes of the Plan, the Benefits Administration Committee in its discretion, may make adjustments in Compensation and Credited Service with respect to payments of severance pay, including, but not limited to, outplacement pay and critical pay.

An Eligible Management Associate who terminates employment due to a reduction in force, as defined below, and who does not satisfy the requirements for Traditional Retirement Age on the date of termination shall receive deemed additional months of age and/or Service, based on the following:

Years of Service	Deemed Additional Months of Age and/or Service
0 - 9	0
10-14	12
15-19	18
20 or more	24

A reduction in force shall mean the termination of employment of an Eligible Management Associate because of:

(a) A partial unit closing or complete unit closing ("unit closing") as determined by the Director of Personnel of the Company in his sole discretion, or

(b) Other business reasons of the Company ("individual termination") as determined by the Director of Personnel of the Company in his sole discretion. With the approval of the Benefits Administration Committee of the Company, the Director of

Human Resources may increase such award by up to 24 deemed additional months of age and/or Service for an individual termination.

For the purposes of determining the benefit payable under Paragraph (1) of Article IV, such Eligible Management Associate is deemed to have attained Traditional Retirement Age. The deemed additional months of age and/or Service shall be added, but only to the extent necessary, to the Eligible Management Associate's age and/or Service, in such amounts necessary to satisfy the minimum requirements for Traditional Retirement Age or, with the approval of the Benefits Administration Committee, an Early Retirement Age on or after age 59.

The deemed additional months of Service shall count as Credited Service for the purpose of entitlement to benefits under this Plan only in the event of an individual termination as described in (b) of the preceding subparagraph, and shall not count as Credited Service in the event of a unit closing described in (a) of the preceding subparagraph.

For the purpose of determining life insurance coverage under paragraph (5) of Article IV, an Eligible Management Associate deemed to have attained Traditional Retirement Age in the event of a unit closing described in (a) of the preceding subparagraph shall be entitled to coverage effective on the first day of the month following his Separation from Service. The amount of such coverage shall be equal to 100% of the amount being provided to him at Company expense immediately prior to his Separation from Service. Said amount shall be reduced in accordance with paragraph (5) of Article IV starting with the first day of the month following his attainment of age 61.

Notwithstanding any other provision of the Plan, an Eligible Management Associate (excluding Officers of the Company) who is entitled to a benefit pursuant to the formula described in paragraph (1) of Article IV as of the Associate's Early Retirement Date, Traditional Retirement Date or Delayed Retirement Date, as the case may be ("formula benefit"), (i) who received from the Company as part of the Company's offer in 1997 to participate in the Voluntary Early Retirement Program, a personalized statement showing the aggregate benefits earned as of January 1, 1998, from the Plan, the Pension Plan and, if applicable, the Benefit Restoration Plan, ("earned benefit") and (ii) who retires from the Company prior to January 1, 1999, shall receive the greater of: (a) the formula benefit, or (b) an amount derived by subtracting the aggregate benefit payable to the Associate from the Pension Plan and, if applicable, the Benefit Restoration Plan from the earned benefit.

(2) Amendment and Termination: The Human Resources and Compensation Committee may amend or modify the Plan at any time, without prior notice; provided, however, that any such amendment or modification which would substantially increase the cost of the Plan to the Company shall require approval of the Board of Directors of the Company. The Board of Directors of the Company may suspend, discontinue, or terminate the Plan at any time without prior notice or approval. In no event will any amendment, modification, suspension, discontinuance, or termination adversely affect existing life insurance coverage for retirees or the Plan benefit for any Eligible

Management Associate for whom benefit payments have already begun in accordance with the Plan as in effect prior to the effective date of the amendment, modification, suspension, discontinuance, or termination unless otherwise required to comply with applicable law.

If the Plan is terminated, any Eligible Management Associate who, as of the effective date of Plan termination, has reached Traditional Retirement Age but who has not reached age 65 shall be entitled to receive, at his actual Separation from Service, the benefits, if any, to which he would have been entitled under Paragraph (1) or (2) of Article IV had he Separated from Service on the day before the effective date of Plan termination, reduced by the percentage derived by dividing the number of months of Credited Service, if any, from the Plan termination effective date to the date of actual Separation from Service by the number of months of Credited Service from the Plan termination effective date to the date the Eligible Management Associate will have reached age 65. Any such Eligible Management Associate shall also be entitled to receive at his actual Separation from Service (other than by reason of death) a benefit, if any, to which he would have been entitled under Paragraph (3) of Article IV had the Plan not been terminated. If, after Plan termination, such Eligible Management Associate Separates from Service by reason of death, Paragraph (4) of Article IV shall apply, if appropriate.

If the Plan is terminated, any Eligible Management Associate who, as of the effective date of Plan termination, has reached his Early Retirement Date (assuming a Separation from Service on such date) shall be entitled to receive, at his actual Separation from Service, the benefits, if any, to which he would have been entitled under Paragraph (1) or (2) of Article IV calculated as if he had reached his Traditional Retirement Age and Separated from Service on the day before the effective date of Plan termination and disregarding the percentage reduction on account of early retirement referred to in clause (iv) of Subparagraph (a) of Paragraph (1) of Article IV, reduced by the percentage derived by dividing the number of months of Credited Service, if any, after his Traditional Retirement Date by 60. Any such Eligible Management Associate shall also be entitled to receive at his actual Separation from Service (other than by reason of death) a benefit, if any, to which he would have been entitled under Paragraph (3) of Article IV had the Plan not been terminated. If after Plan termination, such Eligible Management Associate Separates from Service by reason of death, Paragraph (4) of Article IV shall apply, if appropriate.

If the Plan is terminated, any Eligible management Associate who, as of the effective date of Plan termination (a) has reached age 50, (b) has 10 or more years of credited service, as defined by the Pension Plan, as an Eligible Management Associate, and (c) is not otherwise eligible for benefits under this Paragraph (2) of this Article VIII, shall be entitled to receive, at his actual Separation from Service but no earlier than his Traditional Retirement Date, a benefit equal to the difference between the amount of pension which would be payable pursuant to the early retirement pension benefit provision of the Pension Plan that would be applicable if the Eligible Management Associate elected to receive benefits pursuant to that provision prior to his normal retirement date, as defined in the Pension Plan (disregarding Disability Service, if any) and the amount of pension payable pursuant to the early retirement pension benefit provision of the Pension Plan that would be applicable if the Eligible Management

Associate did not elect to receive benefits pursuant to that provision prior to his normal retirement date, as defined in the Pension Plan (disregarding Disability Service, if any) reduced by the percentage derived by dividing the number of months of Credited Service, if any, after Traditional Retirement Date (assuming a separation from Service) by 60.

In no event will any future amendment or modification of the Plan adversely affect the right to Plan benefits which vest on Plan termination as set forth in this Paragraph (2) without the consent of at least 75 percent of the affected Eligible Management Associates unless such amendment or modification is specifically required to comply with applicable law.

Each amendment to the Plan by the Human Resources and Compensation Committee or the Board of Directors will be made only pursuant to unanimous written consent or by majority vote at a meeting. Upon such action by the Human Resources and Compensation Committee or the Board of Directors, the Plan will be deemed amended as of the date specified as the effective date by such action or in the instrument of amendment. The effective date of any amendment may be before, on, or after the date of such action of the Human Resources and Compensation Committee or the Board of Directors.

(3) Rights of Associates: Except for the Associate's non-forfeitable
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interest as set forth in Paragraph (2) of this Article VIII, neither the establishment of the Plan nor any action thereafter taken by the Company or any Controlled Group Member or by the Benefits Administration Committee shall be

construed as giving to any Associate any vested right to a benefit from the Plan or a right to be retained in employment or any specific position or level of employment with the Company, or any Controlled Group Member. Moreover, no Associate shall have any right or claim to any benefits under this Plan if the Associate is summarily discharged (including resignation in lieu thereof) unless the Benefits Administration Committee, in its discretion, determines that such Associate shall be eligible for such benefits notwithstanding such summary discharge.

(4) Mistaken Information: If any information upon which an Eligible Management Associate's benefit under the Plan is calculated has been misstated by the Eligible Management Associate or is otherwise mistaken, such benefit shall not be invalidated (unless upon the basis of the correct information the Eligible Management Associate would not have been entitled to a benefit), but the amount of the benefit shall be adjusted to the proper amount determined on the basis of the correct information and any overpayments shall be charged against future payments to the Eligible Management Associate or his beneficiary.

(5) Liability: Neither the Board of Directors (including any committees thereof) of the Company or of any Participating Employer nor any member of the Benefits Administration Committee or the Human Resources Committee nor any person to whom any of them may delegate any duty or power in connection with administering the Plan shall be personally liable for any action or failure to act with respect to the Plan.

(6) Benefits for Reemployed Eligible Management Associates: If a retired Eligible Management Associate subsequently is reemployed by a Participating

Employer, the payment of benefits hereunder shall continue. Any life insurance coverage in effect pursuant to Paragraph (5) of Article IV shall cease effective on the date a rehired (whether or not participating in a Profit Incentive Compensation program) Associate becomes eligible for coverage under the Company's term life insurance plan. Upon such Associate's Separation from Service he shall be entitled to receive applicable benefits, if any, under Article IV pursuant to uniform rules approved by the Benefits Administration Committee.

(7) Construction: In determining the meaning of any provision of the Plan, words imparting the masculine gender shall include the feminine and the singular shall include the plural, unless the context requires otherwise. Headings of paragraphs and Articles in the Plan are for convenience only and are not intended to modify or affect the meaning of the substantive provisions of the Plan.

(8) Non-assignability of Benefits: The benefits payable hereunder or the right to receive future benefits under the Plan may not be anticipated, alienated, pledged, encumbered, or subjected to any charge or legal process, and if any attempt is made to do so, or a person eligible for any benefits becomes bankrupt, the interest under the Plan of the person affected may be terminated by the Benefits Administration Committee which, in its sole discretion, may cause the same to be held or applied for the benefit of one or more of the dependents of such person or make any other disposition of such benefits that it deems appropriate.

(9) Governing Law: Except to the extent that the Plan may be subject to the provisions of ERISA, the Plan will be construed and enforced according to the laws of the State of Texas, without giving effect to the conflict of laws principles thereof. Except as otherwise required by ERISA, every right of action by an Associate, former Associate, or beneficiary with respect to the Plan shall be barred after the expiration of three years from the date of Separation of Service of the Eligible Management Associate or the date of receipt of the notice of denial of a claim for benefits, if earlier. In the event ERISA's limitations on legal actions do not apply, the laws of the State of Texas with respect to limitations of legal actions shall apply and the cause of action must

be brought no later than four years after the date the action accrues.

(10) Transferred Eligible Management Associates: In the event of the transfer of an Eligible Management Associate after December 31, 1995 from a Participating Employer to a "non-participating employer" as defined below, said Eligible Management Associate shall continue to be eligible to participate in this Plan in accordance with Article III.

In the event of the transfer of an Eligible Management Associate on or after March 8, 1995 but on or before December 31, 1995 to a non-participating employer, said Eligible Management Associate will continue to be eligible to participate in this Plan in accordance with Article III provided that on December 31, 1995 the Eligible Management Associate (a) is in the employ of the non- participating employer and (b) is not eligible to participate in the Supplemental Retirement Program for Eligible Management Associates of JCPenney Financial Services, or Supplemental Retirement Program for Management Profit-Sharing Associates of Thrift Drug, Inc.

The Service and Compensation of the Eligible Management Associate with the non-participating employer shall be recognized as attributable to a Participating Employer to the extent permitted by the Plan in determining benefits under the Plan. A non-participating employer shall mean a participating employer in the (a) Supplemental Retirement Program for Eligible Management Associates of JCPenney Financial Services, or (b) Supplemental Retirement Program for Management Profit-Sharing Associates of Thrift Drug, Inc.

Notwithstanding the foregoing provisions of this Paragraph (10), an entity that ceases to be a member of the Controlled Group immediately after the Closing (as such term is defined in Paragraph (9) of Article IV) will not be a "non-participating employer" for any purpose of this Plan.

(11) Change of Control: Solely for the purposes of this Paragraph (11), the term Eligible Management Associate shall include all active associates who upon their retirement would qualify as an Eligible Management Associate as of the date of a "Change of Control" (as hereinafter defined).

Upon a Change of Control, assets of the Company in an amount sufficient to pay benefits that have accrued under the Plan up to that date shall immediately be transferred to a grantor trust to be established by the Company for the purpose of paying benefits hereunder. Each Eligible Management Associate's vested benefits shall thereafter be paid to him from such trust in accordance with the terms of the Plan; provided that at the time of such Change of Control, the Eligible Management Associate may make an irrevocable election to have his Plan benefits paid in a single-sum immediately upon the later of (i) the date of the Change of Control, or (ii) the Eligible Management Associate's retirement date; in which event his benefits shall be reduced by 10% as a penalty for early payment. The amount transferred to the grantor trust shall include the amount necessary to pay benefits for Eligible Management Associates who have not yet retired, determined as if they retired on the date of the Change of Control. On each anniversary date of the date of a Change of Control, the Company shall transfer to the grantor trust an amount necessary to pay all benefits that have accrued under the plan during the preceding twelve months.

For purposes of this paragraph (11), a Change of Control shall be deemed to have occurred if the event set forth in any one of the following subparagraphs shall have occurred:

(a) any Person is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company (not including in the securities beneficially owned by such Person any securities acquired directly from the Company or its Affiliates) representing 50% or more of the combined voting power of the Company's then outstanding securities; or

(b) during any period of two consecutive calendar years, the following individuals cease for any reason to constitute a majority of the number of directors then serving as directors of the Company: individuals, who on July 14, 1999 constitute the Board of Directors of the Company and any new director (other than a director whose initial assumption of office is in connection with the settlement of an actual or threatened

election contest, including but not limited to a consent solicitation, relating to the election of directors of the Company) whose appointment or election by the Board of Directors of the Company or nomination for election by the Company's stockholders was approved or recommended by a vote of at least two-thirds of the directors then still in office who either were directors on July 14, 1999 or whose appointment, election or nomination for election was previously so approved or recommended; or

(c) there is consummated a merger or consolidation of the Company or any direct or indirect subsidiary of the Company with any other corporation or entity, other than (i) a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior to such merger or consolidation continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or any Parent thereof), in combination with the ownership of any trustee or other fiduciary holding securities under an employee benefit plan of the Company or any subsidiary of the Company, at least 50% of the combined voting power of the securities of the Company, such surviving entity or any Parent thereof outstanding immediately after such merger or consolidation, or (ii) a merger or consolidation effected solely to implement a recapitalization of the Company (or similar transaction) in which no Person is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company (not including in the securities beneficially owned by such Person any securities acquired directly from the Company or its Affiliates) representing 50% or more of the combined voting power of the Company's then outstanding securities; or

(d) the stockholders of the Company approve a plan of complete liquidation or dissolution of the Company, or there is consummated a sale or disposition by the Company or any of its subsidiaries of any assets which individually or as part of a series of related transactions constitute all or substantially all of the Company's consolidated assets, other than any such sale or disposition to an entity at least 50% of the combined voting power of the voting securities of which are owned by stockholders of the Company in substantially the same proportions as their ownership of the voting securities of the Company immediately prior to such sale or disposition; or

(e) the execution of a binding agreement that if consummated would result in a Change of Control of a type specified in subparagraphs (a) or (c) above (an "Acquisition Agreement") or of a binding agreement for the sale or disposition of assets that, if consummated, would result in a Change of Control of a type specified in subparagraph (d) above (an "Asset Sale Agreement") or the adoption by the Board of Directors of the Company of a plan of complete liquidation or dissolution of the Company that, if consummated, would result in a Change of Control of a type specified in subparagraph (d) above (a "Plan of Liquidation"), provided, however, that a Change of Control of the type specified in this subparagraph (e) shall not be deemed to exist or have occurred as a result of the execution of such Acquisition Agreement or Asset Sale Agreement, or the adoption of such a Plan of Liquidation, from and after the Abandonment Date. As used in this subparagraph (e), the term "Abandonment Date" shall mean the date on which (i) an Acquisition Agreement, Asset Sale Agreement or Plan of Liquidation is terminated (pursuant to its terms or otherwise) without having been consummated, (ii) the parties to an Acquisition Agreement or Asset Sale Agreement abandon the transactions contemplated thereby, (iii) the Company abandons a Plan of Liquidation, or (iv) a court

or regulatory body having competent jurisdiction enjoins or issues a cease and desist or stop order with respect to or otherwise prevents the consummation of, or a regulatory body notifies the Company that it will not approve an Acquisition Agreement, Asset Sale Agreement or Plan of Liquidation or the transactions contemplated thereby and such injunction, order or notice has become final and not subject to appeal; or

(f) the Board adopts a resolution to the effect that, for purposes of this Plan, a Change of Control has occurred.

Notwithstanding the foregoing, a Change of Control shall not be deemed to have occurred by virtue of the consummation of any transaction or series of integrated transactions immediately following which the record holders of the common stock of the Company immediately prior to such transaction or series of transactions continue to have substantially the same proportionate ownership in an entity (i) which owns all or substantially all of the assets of the Company immediately following such transaction or series of transactions, (ii) which is intended to reflect or track the value or performance of a particular division, business segment or subsidiary of the Company, or (iii) which is an affiliated company, subsidiary, or spin-off entity owned by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company on the date of such spin off.

As used in connection with the foregoing definition of Change of Control, "Affiliate" shall have the meaning set forth in Rule 12b-2 promulgated under Section 12 of the Exchange Act; "Beneficial Owner" shall have the meaning set forth in Rule 13d-3 under the Exchange Act; "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended from time to time; "Parent" shall mean any entity that becomes the Beneficial Owner of at least 50% of the voting power of the outstanding voting securities of the Company or of an entity that survives any merger or consolidation of the Company or any direct or indirect subsidiary of the Company; and "Person" shall have the meaning given in Section 3(a)(9) of the Exchange Act, as modified and used in Sections 13(d) and 14(d) thereof, except that such term shall not include (i) the Company or any of its subsidiaries, (ii) a trustee or other fiduciary holding securities under an employee benefit plan of the Company or any of it Affiliates, (iii) an underwriter temporarily holding securities pursuant to an offering of such securities, or (iv) a corporation or entity owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company.

(12) Separation Allowance Program: If an Eligible Management Associate becomes entitled to Severance Pay under the J. C. Penney Company, Inc. 1999 Separation Allowance Program for Profit-Sharing Management Associates ("SAP") or if this Plan is terminated within five years after a Change of Control (as defined in Paragraph (11) above) and, at that time, in either case, is age 45 or older with at least five years of Credited Service, he also shall become entitled to the same Plan benefits (as adjusted by this Paragraph (12)) he would have become vested in under Article VIII, Paragraph (2) of this Plan as if this Plan had been terminated on the day before his Employment Termination (within the meaning of the SAP). In calculating such Plan benefit, an Eligible Management Associate

(a) shall receive credit for an additional five years of Credited Service (provided that total Credited Service under the Plan does not exceed 40 years) and

(b) shall, if age 55 or less, be deemed to be five years older than his actual age, or if age 56 to 59 be deemed to be age 60, and

(c) shall have his Severance Pay counted as Compensation under this Plan as if paid in monthly installments commencing with his Employment Termination (within the meaning of the SAP),

provided that, for purposes of clause (ii) of Subparagraph (b) of Paragraph (1) of Article IV of this Plan, the single life, no-death-benefit annuity equivalent shall not exceed the equivalent determined by ascribing to the Common Stock of the Company, as of the Valuation Date, a value equal to the average of the mean of the high and low sales prices (as reported in the composite transaction table covering transactions of New York Stock Exchange-listed securities) for each trading day in the two calendar quarters immediately preceding the calendar quarter in which a Change of Control (as defined in Paragraph (11) above) occurs, and the amount payable under this Plan at age 60 assuming such Eligible Management Associate remained in employment up to such age at a Compensation level equal to that of the calendar year immediately preceding his Employment Termination (within the meaning of the SAP).

ARTICLE IX. CLAIMS PROCEDURES

If an Associate does not receive the benefits which he believes he is entitled to receive under the Plan, he may file a claim for benefits with the Benefits Director. All claims will be made in writing and will be signed by the claimant. If the claimant does not furnish sufficient information to determine the validity of the claim, the Benefits Director will indicate to the claimant any additional information which is required.

Each claim will be approved or disapproved by the Benefits Director within 90 days following the receipt of the information necessary to process the claim. In the event the Benefits Director denies a claim for benefits in whole or in part, the Benefits Director will notify the claimant in writing of the denial of the claim. Such notice by the Benefits Director will also set forth, in a manner calculated to be understood by the claimant, the specific reasons for such denial, the specific Plan provisions on which the denial is based, a description of any additional material or information necessary to perfect the claim with an explanation of the Plan's claim review procedure as set forth below. If no action is taken by the Benefits Director on a claim within 90 days, the claim will be deemed to be denied for purposes of the review procedure.

A claimant may appeal a denial of his claim by requesting a review of the decision by the Benefits Administration Committee or a person designated by the Committee, which person will be a named fiduciary under Section 402(a) (2) of ERISA for purposes of this Article IX. An appeal must be submitted in writing within 60 days after the denial and must (i) request a review of the claim for benefits under the Plan; (ii) set forth all of the grounds upon which claimant's request for review is based and any facts in support thereof; and (iii) set forth any issues or comments which the claimant deems pertinent to the appeal.

The Benefits Administration Committee or the named fiduciary designated by the Benefits Administration Committee will make a full and fair review of each appeal and any written materials submitted in connection with the appeal. The Benefits Administration Committee or the named fiduciary designated by the Benefits Administration Committee will act upon each appeal within 60 days after receipt thereof unless special circumstances require an extension of the time for processing, in which case a decision will be rendered as soon as possible but not later than 120 days after the appeal is received. The claimant will be given the opportunity to review pertinent documents or materials upon submission of a written request to the Benefits Administration Committee or named fiduciary, provided the Benefits Administration Committee or named fiduciary finds the requested documents or materials are pertinent to the appeal. On the basis of its review, the Benefits Administration Committee or named fiduciary will make an independent determination of the claimant's eligibility for benefits under the Plan.

The decision of the Benefits Administration Committee or named fiduciary on any claim for benefits will be final and conclusive upon all parties thereto. In the event the Benefits Administration Committee or named fiduciary denies an appeal in whole or in part, it will give written notice of the decision to the claimant, which notice will set forth in a manner calculated to be understood by the claimant the specific reasons for such

denial and which will make specific reference to the pertinent Plan provisions on which the decision was based.

APPENDIX I

Participating Employers

J. C. Penney Company, Inc.

JCPenney National Bank
(from and after August 1, 1994 until December 17, 1997)

JCP Internet Commerce Solutions, Inc.
(from and after February 1, 1999)

JCP Logistics L. P.
(from and after February 1, 1999)

JCP Media L. P.
(from and after February 1, 1999)

JCP Overseas Services, Inc.
(from and after July 1, 1996)

JCP Portfolio, Inc.
(dissolved July 18, 1995)

J. C. Penney Private Brands, Inc.
(from and after January 1, 2000)

JCP Procurement L. P.
(from and after February 1, 1999)

JCP Publications Corp.
(formerly JCP Media Corporation)
(from and after April 3, 1996)

JCPenney Puerto Rico, Inc.

JCP Receivables, Inc.

StepInside, Inc.
(from and after January 1, 2000)

APPENDIX II

FORMER ELIGIBLE MANAGEMENT ASSOCIATES
WHOSE BENEFITS HAVE BEEN ASSUMED BY
THE SUPPLEMENTAL RETIREMENT PROGRAM FOR
ELIGIBLE MANAGEMENT ASSOCIATES OF
JCPENNEY FINANCIAL SERVICES

John Camillo

Yumin Chen

Donald S. Creveling

Stephen Duran

David Foster

Jerry R. Geyer

Paul A. Heleski

Robert Iorio

Judy Johnston

Deborah Litwak

Karen A. Nelson

Larry J. Tracey

Robert Valliere

APPENDIX III

ELIGIBLE MANAGEMENT ASSOCIATES
WHOSE NAMES ARE SET FORTH ON
APPENDIX I TO THE
SUPPLEMENTAL RETIREMENT PROGRAM FOR
ELIGIBLE MANAGEMENT ASSOCIATES OF
JCPENNEY FINANCIAL SERVICES

John Camillo

Yumin Chen

Donald S. Creveling

John DiJoseph

Stephen Duran

David Foster

Walter Gatewood

Jerry R. Geyer

Paul A. Heleski

Robert Iorio

Judy Johnston

Deborah Litwak

Thomas McGahey

Deborah Megee

Lynn Morris

Karen A. Nelson

Karen Newton

Leslie Pierce

Alvin Prudhomme

Regina V. Rohner

Joseph Sartoris

Sue E. Stewart

George Suiter

Mark Thornton

Larry J. Tracey

Robert Valliere

R. Michael Williams

APPROVAL FORM

Pursuant to authority granted to me by the Board of Directors of J.C.

Penney Company, Inc. at its meeting held on December 5, 2001, I hereby approve the amendments to the J.C. Penney Company, Inc. Pension Plan, the J.C. Penney Company, Inc. Savings, Profit-Sharing and Stock Ownership Plan, the J.C. Penney Company, Inc. Benefit Restoration Plan, the Supplemental Retirement Program for Management Profit-Sharing Associates of J.C. Penney Company, Inc., the J.C. Penney Company, Inc. Voluntary Early Retirement Plan, the J.C. Penney Company, Inc. Mirror Savings Plans I, II, and III, the J.C. Penney Company, Inc. Separation Pay Plan, and the JCP Telecom Systems, Inc. Early Retirement Plan in the forms annexed hereto as Exhibit A.

Dated as of January 27, 2002.

/s/ Gary L. Davis

Gary L. Davis
Executive Vice President,
Chief Human Resources and
Administration Officer

Approval of Counsel:

/s/ T.P. Blaylock
- -------------------------------------
T.P. Blaylock

/s/ M.E. White
- -------------------------------------
M.E. White

EXHIBIT A

WHEREAS, the Board of Directors of J.C. Penney Company, Inc. authorized an Agreement and Plan of Merger (the "Merger Agreement") between J.C. Penney Company, Inc. ("Company"), J.C. Penney Holdings, Inc., a Delaware corporation ("Holdings"), and JCP Merger Sub, Inc., a Delaware corporation and wholly-owned subsidiary of Holdings ("Merger Sub");

WHEREAS, pursuant to the Merger Agreement, Merger Sub will merge with and into the Company, with Company surviving as a wholly-owned subsidiary of Holdings (the "Merger");

WHEREAS, pursuant to the Merger, Holdings will amend and restate its certificate of incorporation to inter alia, change its name to "J.C. Penney Company, Inc.";

WHEREAS, pursuant to the Merger, the Company will amend and restate its certificate of incorporation to inter alia, change its name to "J.C. Penney Corporation, Inc.";

NOW, THEREFORE, as authorized by the Board of Directors on December 5, 2001, the J.C. Penney Company, Inc. Pension Plan (As Amended and Restated Effective January 1, 2001); the J.C. Penney Company, Inc. Savings, Profit-Sharing and Stock Ownership Plan; the J.C. Penney Company, Inc. Benefit Restoration Plan, the Supplemental Retirement Program for Management Profit-Sharing Associates of J.C. Penney Company, Inc.; the J.C. Penney Company, Inc. Voluntary Early Retirement Plan; the J.C. Penney Company, Inc. Mirror Savings Plans I, II, and III, the J.C. Penney Company, Inc. Separation Pay Plan, and the JCP Telecom Systems, Inc. Early Retirement Plan be, and they hereby are, amended, effective as of January 27, 2002, as set forth in Exhibits 1, 2, 3, 4, 5, 6, 7, and 8, respectively.

EXHIBIT 4

AMENDMENT TO
SUPPLEMENTAL RETIREMENT PROGRAM FOR
MANAGEMENT PROFIT-SHARING ASSOCIATE OF

J. C. PENNEY COMPANY, INC.

1. The name of the Plan is changed effective January 27, 2002 to Supplemental Retirement Program for Management Profit-Sharing Associates of J. C. Penney Corporation, Inc. in each place it appears.

2. The definitions in Article II entitled Benefit Restoration Plan, Company, Mirror Savings Plans, Pension Plan, Plan, and Savings. Profit-Sharing and Stock Ownership Plan are amended effective January 27, 2002 and a new definition entitled Parent Company is added effective January 27, 2002 to read as follows:

Benefit Restoration Plan: Prior to January 27, 2002, the J. C. Penney Company, Inc. Benefit Restoration Plan, as amended from time to time, and on and after January 27, 2002, the J. C. Penney Corporation, Inc. Benefit Restoration Plan, as amended from time to time.

Company: Prior to January 27, 2002, J. C. Penney Company, Inc., a Delaware corporation, and on and after January 27, 2002, J. C. Penney Corporation, Inc., a Delaware corporation. The term "Company" will also include any successor employer, if the successor employer expressly agrees in writing as of the effective date of succession to continue the Plan.

Mirror Savings Plans: Prior to January 27, 2002, the J. C. Penney Company, Inc. Mirror Savings Plan I, the J. C. Penney Company, Inc. Mirror Savings Plan II, and the J. C. Penney Company, Inc. Mirror Savings Plan III, all as amended from time to time, and on and after January 27, 2002, the J. C. Penney Corporation, Inc. Mirror Savings Plan I, the J. C. Penney Corporation, Inc. Mirror Savings Plan II, and the J. C. Penney Corporation, Inc. Mirror Savings Plan III, all as amended from time to time.

Parent Company: J. C. Penney Company, Inc., a Delaware corporation, and any successor corporation.

Pension Plan: Prior to January 27, 2002, the J. C. Penney Company, Inc. Pension Plan, as amended from time to time, and on and after January 27, 2002, the J. C. Penney Corporation, Inc. Pension Plan, as amended from time to time.

Plan: Prior to January 27, 2002, the Supplemental Retirement Program for Management Profit-Sharing Associates of J. C. Penney Company, Inc.,

as amended from time to time, and on and after January 27, 2002, the Supplemental Retirement Program for Management Profit-Sharing Associates of J. C. Penney Corporation, Inc. as amended from time to time.

Savings, Profit-Sharing and Stock Ownership Plan: Prior to January 27, 2002, the J. C. Penney Company, Inc. Savings, Profit-Sharing and Stock Ownership Plan, as amended from time to time, and on and after January 27, 2002, the J. C. Penney Corporation, Inc. Savings, Profit-Sharing and Stock Ownership Plan, as amended from time to time.

3. Paragraph (7) of Article IV is amended effective January 27, 2002 to add the following sentence after sentence one:

Effective January 27, 2002, the name of the VERP Plan was changed to the J. C. Penney Corporation, Inc. Voluntary Early Retirement Plan.

4. Paragraph (11) of Article VIII is amended effective January 27, 2002 to delete the word "Company" and to substitute therefor the words "Parent Company" in each place in which it appears.

5. Paragraph (12) of Article VIII is amended effective January 27, 2002 to delete in sentence one the words "J. C. Penney Company, Inc. 1999 Separation Allowance Program for Profit-Sharing Management Associates ("SAP")" and to substitute therefor the words "J. C. Penney Corporation, Inc. 1999 Separation Allowance Program for Profit-Sharing Management Associates ("SAP")".

EXHIBIT 10(ii)(aa)

J. C. PENNEY COMPANY, INC.

MIRROR SAVINGS PLANS I and II

ADOPTED EFFECTIVE JANUARY 1, 1999

AMENDED THROUGH OCTOBER 10, 2001

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DOCUMENT HISTORY

This document contains the plans adopted on July 8, 1998 by the J. C. Penney Company, Inc. Board of Directors effective January 1, 1999 as amended on the following dates:

December 11, 1998	Human Resources Committee
July 14, 1999	Board of Directors
December 10, 1999	Human Resources Committee
December 11, 2000	Human Resources Committee
March 22, 2001	Human Resources and Compensation Committee
June 1, 2001	Director of Human Resources
October 10, 2001	Human Resources Committee

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J. C. PENNEY COMPANY, INC.

MIRROR SAVINGS PLANS I and II

Adopted effective January 1, 1999

Amended through October 10, 2001

INTRODUCTION

The J. C. Penney Company, Inc. Mirror Savings Plans I and II ("Plans") were adopted effective January 1, 1999 as part of a program to redesign the Company's qualified and non-qualified savings plans to optimize the retirement savings opportunities for Associates.

The Plans are maintained by the Company on an unfunded basis primarily for the purpose of providing deferred compensation to a select group of management or highly compensated employees.

Merged into Plan II effective January 1, 1999 were the J. C. Penney Company, Inc. 1995 Deferred Compensation Plan and the Annual Benefit Limit Make-Up Accounts as of December 31, 1998 under the J. C. Penney Company, Inc. Benefit Restoration Plan and the Thrift Drug, Inc. Benefit Restoration Plan. On and after January 1, 1999 the J. C. Penney Company, Inc. 1995 Deferred Compensation Plan is no longer in existence.

(Plan II)

J. C. PENNEY COMPANY, INC.
MIRROR SAVINGS PLANS I and II

TABLE OF CONTENTS

ARTICLE ONE

DEFINITIONS

As used herein, the following words and phrases have the following respective meanings unless the context clearly indicates otherwise.

Active Participant: A Participant who defers part of his Compensation for a Plan Year (or part thereof) pursuant to an Election to Defer that satisfies the requirements of Section 2.04.

Associate: Any person who is classified as an associate and employed by an Employer if the relationship between the Employer and such person constitutes the legal relationship of employer and employee.

Beneficiary: The person or persons designated by the Participant on a beneficiary form required by the Company for this purpose to receive benefits payable under the Plan because of the Participant's death.

Code: The Internal Revenue Code of 1986, as amended from time to time.

Company: J. C. Penney Company, Inc., a Delaware corporation, or its successor(s).

Company Account: A phantom account established in accordance with Article Three to which Mirror Company Matching Contributions plus earnings are credited.

Compensation: The total cash remuneration paid to an Associate by his Employer, that qualifies as wages as the term wages is defined in Code section 3401 (a), determined without regard to any reduction for workers' compensation and state disability insurance reimbursements, and all other compensation payments for which his Employer is required to furnish the Associate a written statement under Code sections 6041(d), 6051(a)(3) and 6052, reduced by any extraordinary items of special pay.

In addition, Compensation includes any contributions made by the Associate's Employer on behalf of the Associate pursuant to a deferral election under any employee benefit plan containing a cash or deferred arrangement under Section 401(k) of the Code, and any amounts that would have been received as cash but for an election to receive benefits under a cafeteria plan meeting the requirements of Section 125 of the Code.

Compensation also includes eligible cash incentive payments in the year paid to the Associate, and amounts deferred by the Active Participant pursuant to Section 2.05 of the Plan.

Compensation for a Plan Year shall be determined without regard to the limitations on annual compensation under Section 401(a)(17) of the Code.

An Associate who is in the service of the armed forces of the United States during any period in which his reemployment rights are guaranteed by law will be considered to have received the same rate of Compensation during his absence that he was receiving immediately prior to his absence, provided he returns to employment with an Employer within the time such rights are guaranteed.

Eckerd Savings Plan: The Eckerd Corporation 401(k) Savings Plan, as amended from time to time.

Eligible Associate: An Associate who has satisfied the eligibility requirements of the Plan for a Plan Year in accordance with Section 2.02.

Employer: The Company and any subsidiary company or affiliate of the Company that is a Participating Employer as defined in Article I of the Savings Plan or Article I of the Eckerd Savings Plan.

ERISA: The Employee Retirement Security Act of 1974, as amended from time
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to time.

Exchange Act: The Securities Exchange Act of 1934, as amended from time to
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time.

Human Resources and Compensation Committee: The Human Resources and
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Compensation Committee of the Board of Directors of the Company.

Human Resources Committee: The Human Resources Committee of the Management
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Committee of the Company.

Mirror Company Matching Contributions: The phantom amounts deemed to be
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contributed by the Company for each Plan Year as determined under Section 3.04.

Mirror Investment Funds: Phantom funds established as book reserve entries
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in the books and records of the Company to which a Participant's deferral amounts under the Plan are credited based on the investment elections of the Participant. The investment returns of such funds shall be assumed to match the returns of the same investment funds available to participants under the Savings Plan.

Participant: An Eligible Associate who participates in the Plan in
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accordance with Article Two, and who has not yet received a distribution of the entire amount of his vested benefits under the Plan.

Personal Account: A phantom account established in accordance with Article
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Three to which a Participant's deferral amounts plus earnings are credited.

Plan: The J. C. Penney Company, Inc. Mirror Savings Plan I (or II),
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effective January 1, 1999, as amended from time to time.

Plan Year: Each calendar year beginning with the 1999 calendar year.

Savings Plan: The J. C. Penney Company, Inc. Savings, Profit-Sharing and
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Stock Ownership Plan, as amended from time to time.

Separation from Service: The termination of employment of an Eligible
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Associate or a Participant because of retirement, resignation, discharge, disability or death. An Eligible Associate or Participant who transfers from one Employer to another Employer without a break in employment shall not be deemed to have a Separation from Service.

Valuation Date: With respect to all Mirror Investment Funds, each day of a
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calendar year on which the New York Stock Exchange is open.

With respect to transactions or distributions initiated by a Participant or Beneficiary, (a) the date of receipt by the Plan Administrator of the request if it is received prior to the close of the New York Stock Exchange, or (b) the next trading day if the request is received after the close of the New York Stock Exchange.

With respect to distributions not initiated by a Participant, the date the distribution is processed.

ARTICLE TWO

ELIGIBILITY AND PARTICIPATION

2.01 Eligibility Determined for Each Plan Year

The eligibility of each Associate to participate in the Plan as an Active Participant is determined for each Plan Year based on the preceding Plan Year in accordance with Section 2.02 below. Eligibility for, or participation in, the Plan for a Plan Year does not give an Associate the right to defer part of his Compensation under the Plan for any other Plan Year.

2.02 Eligible Associate

An Associate shall be eligible to participate in the Plan as an Active Participant for a Plan Year if the Associate for the preceding Plan Year had:

(1) Satisfied the eligibility requirements of the Savings Plan; and

(2) Earnings in excess of $80,000 (as adjusted in accordance with Section 414(q)(1) of the Code) and less than $100,000 based on his actual Compensation through October 31 of such year plus his projected earnings from November 1 through December 31 of such year determined by using his Base Salary (as defined below) in effect on October 31 of such year.
(Plan 1)

(3) Earnings of at least $100,000 based on his actual Compensation through October 31 of such year plus his projected earnings from November 1 through December 31 of such year determined by using his Base Salary (as defined below) in effect on October 31 of such year.
(Plan II)

Base Salary shall mean the aggregate amount of regular wages due and payable to an Eligible Associate in that Plan Year or calendar year designated by his Employer as the Eligible Associate's monthly pay as reflected on the Employer's personnel records, including any such amounts otherwise due and payable with respect to which his Election to Defer applies hereunder.

2.03 Participation

An Eligible Associate for a Plan Year shall participate in the Plan for that Plan Year as an Active Participant by making a timely Election to Defer in accordance with Section 2.04 below. An Eligible Associate who fails to satisfy the requirements of Section 2.04 below shall not be allowed to make an Election to Defer and shall not be an Active Participant for that Plan Year.

A Participant who is not an Active Participant for a Plan Year shall continue to participate in the Plan in all respects except that such Participant shall not have the right to defer part of his Compensation under the Plan for that Plan Year, and shall not be

entitled to a Mirror Company Matching Contribution (as determined under Section 3.04) for that Plan Year.

2.04 Election to Defer

An Eligible Associate for a Plan Year may elect to defer a percentage (as described in Section 2.05 below) of his Compensation for such Plan Year.

The Election to Defer for a Plan Year must be made in a manner approved by the Plan Administrator and must be received by the Plan Administrator by December 31 of the preceding Plan Year (or, in the case of the first Plan Year, received by December 31, 1998). An Eligible Associate may change his Election to

Defer by filing a new Election to Defer with the Plan Administrator by the applicable deadline.

An Active Participant cannot change his Election to Defer during a Plan Year for that Plan Year. An Active Participant may terminate his Election to Defer during a Plan Year for that Plan Year but shall not be permitted to make another Election to Defer for that Plan Year. Such termination shall be effective as of the next available payroll period following receipt of the termination by the Plan Administrator.

An Election to Defer also shall terminate if:

(1) the Eligible Associate or Participant has a Separation from Service with an Employer, or

(2) the Plan is terminated, or

(3) upon a Change of Control that occurs before the date that payment of Compensation would have been made if not deferred.

2.05 Deferral Amounts

An Active Participant for a Plan Year may defer up to 14% of his Compensation for that Plan Year. All deferral amounts shall be in whole percentages and made by payroll deduction.

(Plan I)

An Active Participant for a Plan Year may defer (a) up to 14% of his Compensation in that Plan Year up to the Earnings Dollar Limit (as defined below), and (b) up to 75% of his Compensation in that Plan Year that exceeds the Earnings Dollar Limit. All deferral amounts shall be in whole percentages and made by payroll deduction.

(Plan II)

The Earnings Dollar Limit of an Active Participant for a Plan Year shall be $160,000, as adjusted for cost-of-living increases in accordance with Section 401(a)(17) of the Code.

(Plan II)

2.06 Investment Elections

A Participant shall complete an election, in the manner determined by the Plan Administrator, requesting that all of his future deferral amounts (in whole percentages) be applied to the purchase for him, as of the earliest practicable Valuation Date after such amounts are deferred, of units in his Personal Accounts within any one or more of the Mirror Investment Funds in each case at a price equal to the value of such units as of such Valuation Date.

Such election initially must be made prior to the commencement of his participation in the Plan and may be changed at any time during the Plan Year. Each such election or change in election shall be effective as soon as administratively feasible following receipt by the Plan Administrator or its delegate of the Participant's election.

In the event that no timely investment election by the Participant is on file with the Plan Administrator, such Participant shall be deemed to have elected that all deferral amounts shall be applied to the purchase for him of units in the Personal Account within the Mirror Investment Fund that is the Interest Income Fund.

ARTICLE THREE

BENEFITS

3.01 Establishment of Accounts

A Personal Account and a Company Account within each Mirror Investment Fund shall be established for each Participant in the Plan as if assets were invested in a trust. All amounts credited to the Personal Accounts and Company Accounts of a Participant shall at all times be held in the Company's general funds as part of the Company's general assets, unless a trust is established pursuant to Section 7.08.

The value, including gains and losses, of such accounts and funds shall be determined by the Plan Administrator in the same manner that the value is determined under the Savings Plan. As of each Valuation Date, the net asset value of a unit shall equal the net asset value of a unit as determined under the Savings Plan.

No funds shall be allocated by the Company to any Personal Account, Company Account, Mirror Investment Fund, Mirror Company Matching Contribution, or Partial-Year Mirror Company Matching Contribution under the Plan.

3.02 Personal Accounts

All amounts deferred by an Active Participant pursuant to Article Two shall be credited to his Personal Accounts within his Mirror Investment Funds specified in his investment election.

All phantom amounts credited to a Participant in his account as of December 31, 1998 under the J. C. Penney Company, Inc. 1995 Deferred Compensation Plan shall be transferred and credited as of January 1, 1999 to his Personal Account within the Mirror Investment Fund that is the Interest Income Fund. (Plan II)

3.03 Company Accounts

An amount deemed to be a Mirror Company Matching Contribution for a full year (as determined under Section 3.04 below) shall be credited to the Company Account of each Active Participant for a Plan Year as of the date a Company matching contribution is allocated to the accounts of participants under the Savings Plan or the Eckerd Savings Plan for that Plan Year.

An Active Participant must be in the active employ of an Employer on December 31 of the Plan Year to receive credit for a Mirror Company Matching Contribution for that Plan Year; provided, however, that an Active Participant who had a Separation from Service before December 31 of said year shall receive credit for a Partial-Year Mirror Company Matching Contribution (as determined under Section 3.05 below) if he qualified for a partial-year Company matching contribution under the Savings Plan or the Eckerd Savings Plan for such year.

A Mirror Company Matching Contribution for a full year shall be deemed to be invested in his Company Account within the Mirror Investment Fund that is the Penney Common Stock Fund. A Partial-Year Mirror Company Matching Contribution shall be deemed to be invested in his Company Accounts within his Mirror Investment Funds in accordance with the Participant's investment election for his Personal Accounts under this Plan.

All phantom amounts credited to a Participant in his Annual Benefit Limit Make-Up Account as of December 31, 1998 under the J. C. Penney Company, Inc. Benefit Restoration Plan or the Thrift Drug, Inc. Benefit Restoration Plan shall be transferred and credited as of January 1, 1999 to his Company Account within the Mirror Investment Fund that is the Interest Income Fund.

(Plan II)

Any amount of Company contributions credited to the Participant's Company account under the Savings Plan and subsequently cancelled so that said plan could satisfy the average contribution percentage test (as described in the Savings Plan) shall be credited to his Company Account within the Mirror Investment Fund that is the Penney Common Stock Fund in the year paid.

All amounts credited to the Company Accounts of a Participant shall be subject to the vesting provisions of Article Five.

3.04 Mirror Company Matching Contribution

A. Savings Plan Participants

The Mirror Company Matching Contribution for an Active Participant is an amount determined by subtracting (b) from (a) below where:

(a) Is the lesser of (c) or (d) below multiplied by the Company matching contribution rate as determined under the Savings Plan for such year;

(b) Is the amount of the matching contribution for a full year actually allocated to the Active Participant's account under the Savings Plan for such year;

(c) Is 6% multiplied by the Active Participant's Compensation for such year determined without regard to the limitations (i) on annual additions under Section 415(c)(1) of the Code, and (ii) on annual compensation under Section 401(a)(17) of the Code; and

(d) Is the amount of the Active Participant's deposits under the Savings Plan for the Plan Year plus the amounts deferred by the Active Participant pursuant to Article Two for such year.

B. Eckerd Savings Plan Participants

The Mirror Company Matching Contribution for an Active Participant is an amount determined by subtracting (b) from (a) below where:

(a) Is $1.50 for each $1.00 of the Active Participant's deposits under the Eckerd Savings Plan and amounts deferred pursuant to Article Two for such year to the extent the total of such deposits and deferrals do not exceed 2% of his Compensation for such year, and $1.00 for each $1.00 of his deposits under the Eckerd Savings Plan and amounts deferred pursuant to Article Two for such year to the extent the total of such deposits and deferrals exceed 2% but do not exceed 3% of his Compensation for such year; and

(b) Is the amount of the matching contribution actually allocated to the Active Participant's account under Section 3.03(b) of the Eckerd Savings Plan for such year.

Compensation for such year shall be determined without regard to the limitations (i) on annual additions under Section 415(c)(1) of the Code, and (ii) on annual compensation under Section 401(a)(17) of the Code.

3.05 Partial Year Mirror Company Matching Contribution

A. Savings Plan Participants

The Partial-Year Mirror Company Matching Contribution is an amount determined by subtracting (b) from (a) below where:

(a) Is the lessor of 50% of (c) below or 50% of (d) below;

(b) Is the amount of the matching contribution for a partial year actually allocated to the Active Participant's account under the Savings Plan for such year;

(c) Is 6% multiplied by the Active Participant's Compensation (as determined below) for such year determined without regard to the limitations on (i) annual additions under Section 415(c)(1) of the Code, and (ii) annual compensation under Section 401(a)(17) of the Code; and

(d) Is the amount of the Active Participant's deposits under the Savings Plan for the Plan year plus the amounts deferred by the Active Participant pursuant to Article Two for such year.

Compensation for the purpose of (c) above shall mean the Active Participant's actual Compensation (other than eligible cash incentive payments) received during the Plan Year plus 1/12 of such eligible cash incentive payments received during the Plan Year multiplied by the number of months (including partial months) during which the Active Participant was in the active employ of his Employer.

B. Eckerd Savings Plan Participants

The Partial-Year Mirror Company Matching Contribution is the amount determined under Section 3.04-B except that Compensation shall mean the Active Participant's actual Compensation (other than eligible cash incentive payments) received during the Plan Year plus 1/12 of such eligible cash incentive payments received during the Plan Year multiplied by the number of months (including partial months) during which the Active Participant was in the active employ of his Employer.

3.06 Transferred Participants

In the event an Active Participant transfers employment from one Employer to another Employer during the Plan Year without a break in service and is a participant in both the Savings Plan and the Eckerd Savings Plan during such Plan Year, he shall be entitled to a Mirror Company Matching Contribution determined under Sections 3.05-A and 3.05-B except that for the purposes of Section 3.05-A, the matching contribution rate as determined under the Savings Plan for such year shall be applied and the 50% matching rate shall not be applied.

ARTICLE FOUR

TRANSFERS

4.01 Personal Accounts

A Participant may elect, once in each calendar day of the Plan Year, to transfer an amount (in whole percentages) equal to the value of all or part of his units in his Personal Accounts within any one or more of the Mirror Investment Funds to another one or more of his Personal Accounts within the Mirror Investment Funds. The value of such units shall be determined as of the Valuation Date. A transfer is effective only if made in the manner determined by the Plan Administrator.

4.02 Company Accounts

A Participant may elect, once in each calendar day of the Plan Year, to transfer an amount (in whole percentages) equal to the value of all or part of his units in his Company Accounts within any one or more of the Mirror Investment Funds to another one or more of his Company Accounts within the Mirror Investment Funds. The value of such units shall be determined as of the Valuation Date. A transfer is effective only if made in the manner determined by the Plan Administrator.

Notwithstanding any other provision of the Plan, a Participant who wishes to make transfers from both his Personal Accounts and Company Accounts during the same day, must do so as part of the same transaction.

ARTICLE FIVE

VESTING

5.01 Personal Accounts

A Participant shall be 100% vested in the value of his Personal Accounts within his Mirror Investment Funds at all times without regard to whether he is a Participant in the Plan for any future Plan Year.

5.02 Company Accounts

A. Savings Plan Participants

This Section 5.02A applies to Mirror Company Matching Contributions described in Section 3.04-A, and Partial-Year Mirror Company Matching Contributions described in Section 3.05-A. A Participant shall be vested in the value of his Company Accounts within his Mirror Investment Funds in the same vesting percentage attributable to the value of his Company accounts under the Savings Plan based on his full years of service (as defined in the Savings Plan) in accordance with the following table:

Full years of service	Vested Percentage
Less than 1	0%
1	20%
2	40%
3	60%
4	80%
5 or more	100%

B. Eckerd Savings Plan Participants

This Section 5.02-B applies to Mirror Company Matching Contributions described in Section 3.04-B, and Partial-Year Mirror Company Matching Contributions described in Section 3.05-B. A Participant shall be 100% vested in the value of his Company Accounts within his Mirror Investment Funds at all times.

5.03 Forfeitures

A Participant who is less than 100% vested in the value of his Company Accounts as of his Separation from Service shall forfeit the non-vested value of his Company Accounts. In the event the Participant subsequently is re-employed by an Employer within 5 years, the amount forfeited (without earnings) hereunder shall be restored to his Company Accounts only if his amount forfeited under the Savings Plan is restored to his Savings Plan Company accounts. The restoration of forfeitures under the Plan shall be made in the same manner as the restoration of forfeitures under the Savings Plan.

ARTICLE SIX

TYPE OF PLAN

6.01 Top Hat Plan

The Plan is intended to be a "pension plan" as defined in ERISA and is maintained by the Company on an unfunded basis primarily for the purpose of providing deferred compensation to a select group of management or highly compensated employees. As such, the Plan is intended to be construed so as not to provide income to any Participant or Beneficiary for purposes of the Internal Revenue Code prior to actual receipt of benefit payments under the Plan.

In the event that it should subsequently be determined by statute or by regulation or ruling that the Plan is not "a plan which is unfunded and is maintained primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees" within the meaning of sections 201(2), 301(a)(3), 401 (a)(1), and 4021(b)(6) of ERISA and section 2520.104-24 of Chapter 29 of the Code of Federal Regulations, participation in the Plan shall be restricted by the Plan Administrator to the extent necessary to assure that it will be such a plan within the meaning of such sections.

Notwithstanding any other provision of the Plan, if the benefits of a Participant become taxable prior to distribution from the Plan, such amounts shall be distributed as soon as practicable to the affected Participant.

6.02 No Funding

Plan benefits shall be payable solely from the general assets of the Company. The Company shall not be required to, but may at its discretion, segregate or physically set aside any funds or assets attributable to Plan benefits. The Company shall retain title to and beneficial ownership of all assets of the Company, including any assets which may be used to pay Plan benefits. The cost of the Plan shall be expensed and a book reserve shall be maintained on the Company's financial statements.

No Participant or Beneficiary shall be deemed to have, pursuant to the Plan, any legal or equitable interest in any specific assets of the Company. To the extent that any Participant or Beneficiary acquires any right to receive Plan benefits, such right shall arise merely as a result of a contractual obligation and shall be no greater than, nor have any preference or priority over, the rights of any general unsecured creditor of the Company.

ARTICLE SEVEN

DISTRIBUTIONS

7.01 Normal Form of Payment

The normal form of payment of benefits under the Plan shall be 5 substantially equal annual installments payable in accordance with Section 7.02 below.

7.02 Separation from Service

A Participant who has a Separation from Service for a reason other than death shall be entitled to receive the vested benefits in his Personal Accounts and Company Accounts in 5 substantially equal annual installments.

The first annual installment shall be paid in January following the year in which occurs his Separation from Service. Each annual installment thereafter shall be paid in January of each year. Payment dates shall be determined by the Plan Administrator.

Notwithstanding the foregoing, if the present value of the participant's vested benefits does not exceed $5,000, such benefits shall be distributed to the Participant in a single sum payment in January following the year in which occurs the later of (a) his Separation from Service or (b) the date of receipt by the Plan Administrator of the Participant's notice of employment termination. Such present value shall be determined as of the date of receipt by the Plan Administrator of the Participant's notice of employment termination; provided, however, that if the Participant had a Separation from Service before January 1, 2000, such present value shall be determined as of December 31, 1999. The payment date shall be determined by the Plan Administrator.

7.03 Death

The Beneficiary of a Participant who (1) has a Separation from Service because of death, or (2) dies after his Separation from Service but before receiving all of his vested Plan benefits shall be entitled to receive the remaining annual installments to which the Participant was entitled as of the date of death. The first annual installment payable to the Beneficiary shall be paid in January following the Participant's date of death, or, if later, after satisfactory proof of death is received by the Plan Administrator. Each annual installment thereafter shall be paid in January of each year. Payment dates shall be determined by the Plan Administrator.

Notwithstanding the foregoing, if the present value of the participant's vested benefits does not exceed $5,000, such benefits shall be distributed to the Beneficiary of the Participant in a single sum payment in January following the Participant's date of death, or, if later, after satisfactory proof of death is received by the Plan Administrator. The payment date shall be determined by the Plan Administrator.

A single-sum distribution shall be paid to the estate of the Participant if as of the date of death (1) no valid beneficiary designation by the Participant is on file with the

Plan Administrator, (2) the Beneficiary has predeceased the Participant, or (3) the Beneficiary has died within 30 days after the Participant's date of death.

A single-sum distribution shall be paid to the estate of the Beneficiary if the Beneficiary dies before receiving all benefits to which he was entitled under the Plan.

7.04 Alternate Form of Payment

A Participant entitled to receive benefits under Section 7.02 above may make an irrevocable election to receive (1) not more than 15 substantially equal annual installments, or (2) a single-sum distribution. The election must be made prior to the Participant's Separation from Service in a manner authorized by the Plan Administrator. If no election has been made by the Participant, benefits shall be paid in the normal form of payment in accordance with Section 7.02 above.

The first annual installment or single-sum distribution shall be paid in January following the year in which occurs his Separation from Service; provided, however, that the first annual installment or single-sum distribution shall not be paid until the January following the expiration of at least one calendar year after the year in which the Participant's election is made. Each annual installment thereafter shall be paid in January of each year.

A Participant also may make an irrevocable election to defer payment of the first installment or single-sum distribution to January of a later year provided the election is made prior to the Participant's Separation from Service in a manner authorized by the Plan Administrator. If no election has been made by the Participant, benefits shall commence in accordance with Section 7.02 or Section 7.04 above, whichever is applicable.

A Participant who elects both to change the normal form of payment and to defer payment must make the elections at the same time.

7.05 Hardship Distribution

A Participant or Beneficiary entitled to vested benefits under the Plan may request a single-sum distribution to satisfy a severe financial hardship resulting from an unforseen event or emergency (as defined below) beyond his control. The distribution shall be limited to the amount necessary to satisfy the severe financial hardship (including any applicable federal, state or local taxes attributable to such distribution), and shall not exceed the current value of vested benefits payable to or on behalf of the Participant or Beneficiary.

An unforseen event or emergency may include, but is not limited to, a sudden and unexpected illness or accident of the Participant or Beneficiary or his dependent, loss of his property due to casualty, or other similar extraordinary and unforeseeable circumstances arising as the result of events beyond his control, but shall not include the purchase of his home or the college expenses of his child.

The determination of the existence of a severe financial hardship and the approval of a hardship distribution shall be made by the Director of Personnel (or his successor by title or position) or his delegate except as provided below. Approval shall be given only if, taking into account all of the facts and circumstances, continued deferral of benefits or adherence to the Plan's payment schedule would result in a severe financial hardship to the Participant or Beneficiary. Approval shall not be granted if such hardship is or may be relieved through insurance, by liquidation of his assets (to the extent such liquidation would not itself cause severe financial hardship), or by terminating his Election to Defer.

With respect to a Participant who is a member of the Management Committee of the Company or a Participant who is subject to Section 16(b) of the Exchange Act, the determination of the existence of a severe financial hardship and the approval of the hardship distribution shall be made by the Human Resources and Compensation Committee.

In the case of a Participant or Beneficiary who receives a partial hardship distribution while receiving benefit payments, the regular payment schedule of the Participant or Beneficiary shall continue following such distribution.

7.06 Fund-Specific Installments or Hardship Distributions

The payment to a Participant or Beneficiary of installments or a hardship distribution shall reduce the value of his accounts in his Mirror Investment Fund(s) as designated by the Participant or Beneficiary. In the event the Participant or Beneficiary fails to designate the Mirror Investment Funds from which payment is to be made, the value of his Mirror Investment Funds shall be reduced on a pro-rata basis.

7.07 Form of Payments

Payment of all benefits from the Plan shall be made only by check. No payments of Company stock shall be permitted.

7.08 Change of Control

At the time of commencement of participation in the Plan, a Participant may make an irrevocable election to have his Plan benefits paid in a single-sum immediately upon a Change of Control (as hereafter defined). If the Participant makes such an election as described above, his vested Plan benefits shall be paid in a single-sum upon a Change of Control.

If the Participant does not make such an election, then, upon a Change of Control, assets of the Company in an amount sufficient to pay benefits then due under the Plan shall immediately be transferred to a grantor trust to be established by the Company for the purpose of paying benefits hereunder, and the Personal Account and Company Account shall thereafter be paid to the Participant from such trust in accordance with the terms of the Plan; provided that at the time of such Change of Control, the Participant may make an irrevocable election to have his Plan benefits paid

in a single-sum immediately, in which event the Participant's benefits shall be reduced by 10% as a penalty for early withdrawal, and the Participant shall receive a single-sum payment of only 90% of his benefits otherwise payable under the Plan. On each anniversary date of the date of a Change of Control, the Company shall transfer to the grantor trust an amount necessary to pay all benefits accrued under the plan during the preceding twelve months.

For purposes of this Section 7.08, a Change of Control shall be deemed to have occurred if the event set forth in any one of the following paragraphs shall have occurred:

(a) any Person is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company (not including in the securities beneficially owned by such Person any securities acquired directly from the Company or its Affiliates) representing 50% or more of the combined voting power of the Company's then outstanding securities; or

(b) during any period of two consecutive calendar years, the following individuals cease for any reason to constitute a majority of the number of directors then serving as directors of the Company: individuals, who on July 14, 1999 constitute the Board of Directors of the Company and any new director (other than a director whose initial assumption of office is in connection with the settlement of an actual or threatened election contest, including but not limited to a consent solicitation, relating to the election of directors of the Company) whose appointment or election by the Board of Directors of the Company or nomination for election by the Company's stockholders was approved or recommended by a vote of at least two-thirds of the directors then still in office who either were directors on July 14, 1999 or whose appointment, election or nomination for election was previously so approved or recommended; or

(c) there is consummated a merger or consolidation of the Company or any direct or indirect subsidiary of the Company with any other corporation of entity, other than

(i) a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior to such merger or consolidation continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or any Parent thereof), in combination with the ownership of any trustee or other fiduciary holding securities under an employee benefit plan of the Company or any subsidiary of the Company, at least 50% of the combined voting power of the securities of the Company, such surviving entity or any Parent thereof outstanding immediately after such merger or consolidation, or

(ii) a merger or consolidation effected solely to implement a recapitalization of the Company (or similar transaction) in which no Person is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company (not including in the securities beneficially owned by such

Person any securities acquired directly from the Company or its Affiliates) representing 50% or more of the combined voting power of the Company's then outstanding securities; or

(d) the stockholders of the Company approve a plan of complete liquidation or dissolution of the Company, or there is consummated a sale or disposition by the Company or any of its subsidiaries of any assets which individually or as part of a series of related transactions constitute all or substantially all of the Company's consolidated assets, other than any such sale or disposition to an entity at least 50% of the combined voting power of the voting securities of which are owned by stockholders of the Company in substantially the same proportions as their ownership of the voting securities of the Company immediately prior to such sale or disposition; or

(e) the execution of a binding agreement that if consummated would result in a Change of Control of a type specified in subparagraphs (a) or (c) above (an "Acquisition Agreement") or of a binding agreement for the sale of disposition of assets that, if consummated, would result in a Change of Control of a type specified in subparagraph (d) above (an "Asset Sale Agreement") or the adoption by the Board of Directors if the Company of a plan of complete liquidation or dissolution of the Company that, if consummated, would result in a Change of Control of a type specified in subparagraph (d) above (a "Plan of Liquidation"), provided, however, that a Change of Control of the type specified in this subparagraph (e) shall not be deemed to exist or have occurred as a result of the execution of such Acquisition Agreement or Asset Sale Agreement, or the adoption of such a Plan of Liquidation, from and after the Abandonment Date. As used in this subparagraph (e), the term "Abandonment Date" shall mean the date on which

(i) an Acquisition Agreement, Asset Sale Agreement or Plan of Liquidation is terminated (pursuant to its terms or otherwise) without having been consummated,

(ii) the parties to an Acquisition Agreement or Asset Sale Agreement abandon the transactions contemplated thereby,

(iii) the Company abandons a Plan of Liquidation, or

(iv) a court or regulatory body having competent jurisdiction enjoins or issues a cease and desist or stop order with respect to or otherwise prevents the consummation of, or a regulatory body notifies the Company that it will not approve an Acquisition Agreement, Asset Sale Agreement or Plan of Liquidation or the transactions contemplated thereby and such injunction, order or notice has become final and not subject to appeal; or

(f) the Board adopts a resolution to the effect that, for purposes of this Plan, a Change of Control has occurred.

Notwithstanding the foregoing, a Change of Control shall not be deemed to have occurred by virtue of the consummation of any transaction or series of integrated transactions immediately following which the record holders of the common stock of the Company immediately prior to such transaction or series of transactions continue to have substantially the same proportionate ownership in an entity (i) which owns all or substantially all of the assets of the Company immediately following such transaction or series of transactions, (ii) which is intended to reflect or track the value or performance of a particular division, business segment or subsidiary of the Company, or (iii) which is an affiliated company, subsidiary, or spin-off entity owned by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company on the date of such spin-off.

As used in connection with the foregoing definition of Change of Control, "Affiliate" shall have the meaning set forth in Rule 12b-2 promulgated under Section 12 of the Exchange Act; "Beneficial Owner" shall have the meaning set forth in Rule 13d-3 under the Exchange Act; "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended from time to time; "Parent" shall mean any entity that becomes the Beneficial Owner of at least 50% of the voting power of the outstanding voting securities of the Company or of an entity that survives any merger or consolidation of the Company or any direct or indirect subsidiary of the Company; and `Person" shall have the meaning given in Section 3(a)(9) of the Exchange Act, as modified and used in Sections 13(d) and 14(d) thereof, except that such term shall not include (i) the company or any of its subsidiaries, (ii) a trustee or other fiduciary holding securities under an employee benefit plan of the Company or any of its Affiliates, (iii) an underwriter temporarily holding securities pursuant to an offering of such securities, or (iv) a corporation or entity owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company.

7.09 Reemployed Participants

If the Participant is reemployed, his scheduled payments under Section 7.02 or Section 7.04 shall cease and his election, if any, under Section 7.04 shall be void. The Participant may make a new election under Section 7.04 prior to his subsequent Separation from Service that shall apply to any unpaid benefits and to any additional benefits payable to or on behalf of the Participant because of a subsequent Separation from Service.

If no new election is made by the Participant, benefits shall be paid in the normal form of payment in accordance with Section 7.02 above.

ARTICLE EIGHT

AMENDMENT AND TERMINATION

8.01 Plan Amendment

The Human Resources and Compensation Committee may amend the Plan at any time and from time to time, without prior notice to any Participant or Beneficiary; provided, however, that the Human Resources Committee also may make amendments that relate primarily to the administration of the Plan, are applied in a uniform and consistent manner to all Participants, and are reported to the Human Resources and Compensation Committee.

8.02 Plan Termination

The Board of Directors of the Company may terminate or discontinue the Plan at any time. If the Plan is terminated, it shall be on such terms and conditions as the Board of Directors of the Company shall deem appropriate.

8.03 Automatic Plan Termination

This Plan is expressly conditioned on the continued deferral of income tax on amounts deferred by a Participant under the Plan until such amounts are actually distributed to the Participant. If, as a result of an adverse determination by the Internal Revenue Service or a change in the tax laws or applicable income tax regulations, amounts deferred by Participants under the Plan become subject to income tax prior to the actual distribution of such amounts, the Plan and each Election to Defer hereunder shall automatically terminate as of the effective date of such change in the law without any formal action by the Board of Directors to terminate the Plan.

ARTICLE NINE

MISCELLANEOUS

9.01 Plan Administration

The Plan shall be administered under the direction of the Human Resources and Compensation Committee. Except as otherwise provided below, the Benefits Administration Committee shall be considered the Plan Administrator for purposes of ERISA.

The Human Resources and Compensation Committee may delegate all or some of the responsibility for the administration of the Plan to the Human Resources Committee or the Benefits Administration Committee in which case such Committee shall assume such delegated power and authority in administering the Plan to that extent; provided, however, that in no event shall the Human Resources Committee or the Benefits Administration Committee have any power or authority with respect to matters involving a Participant who is a member of the Management Committee of the Company or a Participant who is subject to Section 16(b) of the Exchange Act.

The Plan Administrator has the authority and discretion to construe and interpret the Plan. As part of this authority, the Plan Administrator has the discretion to resolve inconsistencies or ambiguities in the language of the Plan, to supply omissions from or correct deficiencies in the language of the Plan, and to adopt rules for the administration of the Plan which are not inconsistent with the terms of the Plan. The Plan Administrator also has the authority and discretion to resolve all questions of fact relating to any claim for benefits as to any matter for which the Plan Administrator has responsibility. All determinations of the Plan Administrator are final and binding on all parties.

Each person considered to be a fiduciary with respect to the Plan shall have only those powers and responsibilities as are specifically given that person under this Plan. It is intended that each such person shall be responsible for the proper exercise of his or her own powers and responsibilities, and shall not be responsible for any act or failure to act of any other person considered to be a fiduciary or any act or failure to act of any person considered to be a non-fiduciary.

9.02 Plan Expenses

All Plan administration expenses incurred by the Company or the Plan Administrator shall be paid by the Company.

9.03 Effect on Other Benefits

Participation in the Plan shall not reduce any welfare benefits or retirement benefits offered by the Company, except that the amounts deferred under the Plan and any Plan benefits shall not be considered "Compensation" for purposes of the Savings Plan.

9.04 No Guarantee of Employment

Neither participation in the Plan nor any action taken under the Plan shall confer upon a Participant any right to continue in the employ of an Employer or affect the right of such Employer to terminate the Participant's employment at any time.

9.05 Disclaimer of Liability

The Employer shall be solely responsible for the payment of Plan benefits hereunder. The members of the Human Resources and Compensation Committee and the Human Resources Committee, and the officers, directors, employees, or agents of the Company or any other Employer, shall not be liable for such benefits. Unless otherwise required by law, no such person shall be liable for any action or failure to act, except where such act or omission constitutes gross negligence or willful or intentional misconduct.

9.06 Severability

If any provision of the Plan shall be held invalid or unenforceable, such invalidity or unenforceability shall apply only to that provision, and shall not affect or render invalid or unenforceable any other provision of the Plan. In such event, the Plan shall be administered and construed as if such invalid or unenforceable provision were not contained herein. If the application of any Plan provision to any Participant or Beneficiary shall be held invalid or unenforceable, the application of such provision to any other Participant or Beneficiary shall not in any manner be affected thereby.

9.07 Successors

The Plan and any Election to Defer shall be binding on (i) the Company and its successors and assigns, (ii) any Employer and its successors and assigns, (iii) each Participant, (iv) each Beneficiary, and (v) the heirs, distributees, and legal representatives of each Participant and Beneficiary.

9.08 Governing Law

Except to the extent that the Plan may be subject to the provisions of ERISA, the Plan shall be construed and enforced according to the laws of the State of Texas without giving effect to the conflict of laws principles thereof. In the event limitations imposed by ERISA on legal actions do not apply, the laws of the State of Texas shall apply, and a cause of action under the Plan must be brought no later than four years after the date the action accrues.

9.09 Construction

As used herein, the masculine shall include the feminine, the singular shall include the plural, and vice versa, unless the context clearly indicates otherwise. Titles and headings herein are for convenience only and shall not be considered in construing the Plan. The words "hereof," "hereunder", and other similar compounds of the word "here" shall mean and refer to the entire Plan and not to any particular provision or Section.

9.10 Taxes

Any taxes imposed on Plan benefits shall be the sole responsibility of the Participant or Beneficiary. The Company shall deduct from Plan benefits any federal taxes, state taxes, local taxes, or other taxes required to be withheld. The Company shall, unless the Plan Administrator elects otherwise, withhold such taxes at the applicable flat rate percentage. The Company shall also deduct from any payment of Compensation, including any cash incentive payments, on the date such payment would have been made if not deferred under this Plan Social Security and Medicare taxes or other taxes required to be withheld on such date.

9.11 Non-Assignabilty

Unless otherwise required by law, and prior to distribution to a Participant or Beneficiary, Plan benefits shall not be subject to assignment, transfer, sale, pledge, encumbrance, alienation, or charge by such Participant or Beneficiary, and any attempt to do so shall be void. Plan benefits shall not be liable for or subject to garnishment, attachment, execution, or levy, or liable for or subject to the debts, contracts, or liabilities of the Participant or Beneficiary; provided, however, that the Company may offset from the payment of any Plan benefits to a Participant or Beneficiary amounts owed by the Participant to an Employer.

9.12 Claims Procedure

If a Participant or Beneficiary ("claimant") does not receive the benefits which the claimant believes he is entitled to receive under the Plan, the claimant may file a claim for benefits with the Director of Personnel (or his successor by title or position). All claims must be made in writing and must be signed by the claimant. If the claimant does not furnish sufficient information to determine the validity of the claim, the Director of Personnel will indicate to the claimant any additional information which is required.

Each claim will be approved or disapproved by the Director of Personnel within 90 days following receipt of the information necessary to process the claim. In the event the Director of Personnel denies a claim for benefits in whole or in part, the Director of Personnel will notify the claimant in writing of the denial of the claim. Such notice by the Director of Personnel will also set forth, in a manner calculated to be understood by the claimant, the specific reasons for such denial, the specific Plan provisions on which the denial is based, a description of any additional material or information necessary to perfect the claim with an explanation of why such material or information necessary, and an explanation of the Plan's claim review procedure as set forth below. If no action is taken by the Director of Personnel on or a claim within 90 days, the claim will be deemed to be denied for purposes of the review procedure below.

A claimant may appeal a denial of his or her claim by requesting a review of the decision by the Plan Administrator. An appeal must be submitted in writing within six

months after the denial and must (i) request a review of the claim for benefits under the Plan, (ii) set forth all the grounds upon which the claimant's request for review is based and any facts in support thereof, and (iii) set forth any issues or comments which the claimant deems pertinent to the appeal.

The Plan Administrator will make a full and fair review of each appeal and any written materials submitted in connection with the appeal. The Plan Administrator will act upon each appeal within 60 days after receipt thereof, unless special circumstances require an extension of the time for processing, in which case a decision will be rendered as soon as possible but not later than 120 days after the appeal is received. The claimant will be given the opportunity to review pertinent documents or materials upon submission of a written request to the Plan Administrator, provided the Plan Administrator finds the requested documents or materials pertinent to the appeal. On the basis of its review, the Plan Administrator will make an independent determination of the claimant's eligibility for benefits under the Plan.

The decision of the Plan Administrator on any claim for benefits will be final and conclusive upon all parties thereto. In the event the Plan Administrator denies an appeal in whole or in part, the Plan Administrator will give written notice of the decision to the claimant, which notice will set forth, in a manner calculated to be understood by the claimant, the specific reasons for such denial and specific reference to the pertinent Plan provisions on which the decision was based.

J. C. PENNEY COMPANY, INC.

MIRROR SAVINGS PLAN III

Adopted effective August 1, 1999

As amended through October 10, 2001

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DOCUMENT HISTORY

This document contains the plan adopted by Unanimous Written Consent of the Personnel and Compensation Committee of the J. C. Penney Company, Inc. Board of Directors on July 28, 1999 effective on August 1, 1999 as amended on the following dates:

December 10, 1999	Human Resources Committee
December 11, 2000	Human Resources Committee
March 22, 2001	Human Resources and Compensation Committee
June 1, 2001	Director of Human Resources
October 10, 2001	Human Resources Committee

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J. C. PENNEY COMPANY, INC.

MIRROR SAVINGS PLAN III

Adopted effective August 1, 1999

As amended through October 10, 2001

INTRODUCTION

The J. C. Penney Company, Inc. Mirror Savings Plan ("Plan") III was adopted effective August 1, 1999 as part of a program to redesign the Company's qualified and non-qualified savings plans to optimize the retirement savings opportunities for certain Associates prior to the date they became eligible to participate in the J. C. Penney Company, Inc. Savings, Profit-Sharing and Stock Ownership Plan.

The Plan is maintained by the Company on an unfunded basis primarily for the purpose of providing deferred compensation to a select group of management or highly compensated employees.

J. C. PENNEY COMPANY, INC.
MIRROR SAVINGS PLAN III

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ARTICLE ONE

DEFINITIONS

As used herein, the following words and phrases have the following respective meanings unless the context clearly indicates otherwise:

Active Participant: A Participant who defers part of his Compensation for a
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Plan Year (or part thereof) pursuant to an Election to Defer that satisfies the requirements of Section 2.04.

Associate: Any person who is classified as an associate and employed by an
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Employer if the relationship between the Employer and such person constitutes the legal relationship of employer and employee.

Beneficiary: The person or persons designated by the Participant on a
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beneficiary form required by the Company for this purpose to receive benefits payable under the Plan because of the Participant's death.

Code: The Internal Revenue Code of 1986, as amended from time to time.

Company: J. C. Penney Company, Inc., a Delaware corporation, or its
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successor(s).

Compensation: The total cash remuneration paid to an Associate by his
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Employer, that qualifies as wages as the term wages is defined in Code section 3401(a), determined without regard to any reduction for workers' compensation and state disability insurance reimbursements, and all other compensation payments for which his Employer is required to furnish the Associate a written statement under Code sections 6041(d), 6051(a)(3) and 6052, reduced by any extraordinary items of special pay.

In addition, Compensation includes any contributions made by the Associate's Employer on behalf of the Associate pursuant to a deferral election under any employee benefit plan containing a cash or deferred arrangement under Section 401(k) of the Code, and any amounts that would have been received as cash but for an election to receive benefits under a cafeteria plan meeting the requirements of Section 125 of the Code.

Compensation also includes eligible cash incentive payments in the year paid to the Associate, and amounts deferred by the Active Participant pursuant to Section 2.05 of the Plan.

Compensation for a Plan Year shall be determined without regard to the limitations on annual compensation under Section 401(a)(17) of the Code.

An Associate who is in the service of the armed forces of the United States during any period in which his reemployment rights are guaranteed by law will be considered to

have received the same rate of Compensation during his absence that he was receiving immediately prior to his absence, provided he returns to employment with an Employer within the time such rights are guaranteed.

Eckerd Savings Plan: The Eckerd Corporation 401(k) Savings Plan, as amended
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from time to time.

Eligible Associate: An Associate who has satisfied the eligibility

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requirements of the Plan for a Plan Year in accordance with Section 2.02.

Employer: The Company and any subsidiary company or affiliate of the
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Company that is a Participating Employer as defined in Article I of the Savings Plan or Article I of the Eckerd Savings Plan.

ERISA: The Employee Retirement Security Act of 1974, as amended from time
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to time.

Exchange Act: The Securities Exchange Act of 1934, as amended from time to
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time.

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

Human Resources Committee: The Human Resources Committee of the Management
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Committee of the Company.

Mirror Investment Funds: Phantom funds established as book reserve entries
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in the books and records of the Company to which a Participant's deferral amounts under the Plan are credited based on the investment elections of the Participant. The investment returns of such funds shall be assumed to match the returns of the same investment funds available to participants under the Savings Plan.

Participant: An Eligible Associate who participates in the Plan in
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accordance with Article Two, and who has not yet received a distribution of the entire amount of his vested benefits under the Plan.

Personal Account: A phantom account established in accordance with Article
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Three to which a Participant's deferral amounts plus earnings are credited.

Plan: The J. C. Penney Company, Inc. Mirror Savings Plan III, effective
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August 1, 1999, as amended from time to time.

Plan Year: August 1, 1999 through December 31, 1999, and each calendar year
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thereafter.

Savings Plan: The J. C. Penney Company, Inc. Savings, Profit-Sharing and
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Stock Ownership Plan, as amended from time to time.

Separation from Service: The termination of employment of an Eligible
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Associate or a Participant because of retirement, resignation, discharge, disability or death. An Eligible Associate or Participant who transfers from one Employer to another Employer without a break in employment shall not be deemed to have a Separation from Service.

Valuation Date: With respect to all Mirror Investment Funds, each day of a
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calendar year on which the New York Stock Exchange is open.

With respect to transactions or distributions initiated by a Participant or Beneficiary, (a) the date of receipt by the Plan Administrator of the request if it is received prior to the close of the New York Stock Exchange, or (b) the next trading day if the request is received after the close of the New York Stock Exchange.

With respect to distributions not initiated by a Participant, the date the distribution is processed.

ARTICLE TWO

ELIGIBILITY AND PARTICIPATION

2.01 Eligibility Determined for Each Plan Year

The eligibility of each Associate to participate in the Plan as an Active Participant is determined for each Plan Year in accordance with Section 2.02 below. Eligibility for, or participation in, the Plan for a Plan Year does not give an Associate the right to defer part of his Compensation under the Plan for any other Plan Year.

2.02 Eligible Associate

An Associate shall be eligible to participate in the Plan as an Active Participant for a Plan Year if the Associate has been designated as an Eligible Associate by the Vice President and Director of Human Resources in his sole discretion (or his successor by title or position) and has received a written offer to participate in the Plan.

An Associate shall not be designated as an Eligible Associate unless he (a) is employed with the Company at a position responsibility level of 15 or above, or with an Employer at a comparable position responsibility level as determined by the Vice President and Director of Human Resources (or his successor by title or position) in his sole discretion and (b) is expected to have projected earnings of at least $100,000 for his first year of employment based on his Compensation as of his date of hire.

2.03 Participation

An Eligible Associate for a Plan Year shall participate in the Plan for that Plan Year as an Active Participant by making a timely Election to Defer in accordance with Section 2.04 below. An Eligible Associate who fails to satisfy the requirements of Section 2.04 below shall not be allowed to make an Election to Defer and shall not be an Active Participant for that Plan Year.

A Participant who is not an Active Participant for a Plan Year shall continue to participate in the Plan in all respects except that such Participant shall not have the right to defer part of his Compensation under the Plan for that Plan Year.

2.04 Election to Defer

An Eligible Associate for a Plan Year may elect to defer a percentage (as described in Section 2.05 below) of his Compensation for such Plan Year.

The Election to Defer for a Plan Year must be made in a manner approved by the Plan Administrator and must be received by the Plan Administrator

(a) For the Plan Year ending on December 31, 1999, before September 1, 1999 and shall be effective on September 1, 1999, or

(b) For a Plan Year beginning after December 31, 1999, on or before the last day of the 30-day period ("election period") beginning on the Eligible Associate's date of hire and shall be effective on the first day of the next calendar month beginning after the end of the election period, or

(c) For any Plan Year not described in (a) or (b) above, by December 31 of the preceding Plan Year and shall be effective on January 1 following such preceding Plan Year.

The election period described in (b) above shall begin on the date of the written offer to participate in the Plan if the Vice President and Director of Human Resources (or his successor by title or position) determines in his sole discretion that the Eligible Associate did not have adequate time after his date of hire to make an Election to Defer.

An Eligible Associate may change his Election to Defer by filing a new Election to Defer with the Plan Administrator by the applicable deadline.

An Active Participant cannot change his Election to Defer during a Plan Year for that Plan Year. An Active Participant may terminate his Election to Defer during a Plan Year for that Plan Year but shall not be permitted to make another Election to Defer for that Plan Year. Such termination shall be effective as of the next available payroll period following receipt of the termination by the Plan Administrator.

An Election to Defer also shall terminate if:

(1) the Eligible Associate is eligible to participate in the J. C. Penney Company, Inc. Mirror Savings Plan II, or

(2) the Eligible Associate or Participant has a Separation from Service with an Employer, or

(3) the Plan is terminated, or

(4) upon a Change of Control that occurs before the date that payment of Compensation would have been made if not deferred.

2.05 Deferral Amounts

An Active Participant for a Plan Year may defer (a) up to 14% of his Compensation in that Plan Year up to the Earnings Dollar Limit (as defined below), and (b) up to 75% of his Compensation in that Plan Year that exceeds the Earnings Dollar Limit provided, however, that for the Plan Year ending on December 31, 1999 an Active Participant may defer all or part of his supplemental cash payments and signing bonus. All deferral

amounts shall be in whole percentages and made by payroll deduction. Compensation in a Plan Year that is paid prior to the effective date of the Active Participant's Election to Defer cannot be deferred for that Plan Year.

The Earnings Dollar Limit of an Active Participant for a Plan Year shall be shall be $160,000, as adjusted for cost-of-living increases in accordance with Section 401(a)(17) of the Code.

2.06 Investment Elections

A Participant shall complete an election, in the manner determined by the Plan Administrator, requesting that all of his future deferral amounts (in whole percentages) be applied to the purchase for him, as of the earliest practicable Valuation Date after such amounts are deferred, of units in his Personal Accounts within any one or more of the Mirror Investment Funds in each case at a price equal to the value of such units as of such Valuation Date.

Such election initially must be made prior to the commencement of his participation in the Plan and may be changed at any time during the Plan Year. Each such election or change in election shall be effective as soon as administratively feasible following receipt by the Plan Administrator or its delegate of the Participant's election.

In the event that no timely investment election by the Participant is on file with the Plan Administrator, such Participant shall be deemed to have elected that all deferral amounts shall be applied to the purchase for him of units in the Personal Account within the Mirror Investment Fund that is the Interest Income Fund.

ARTICLE THREE

BENEFITS

3.01 Establishment of Accounts

A Personal Account within each Mirror Investment Fund shall be established for each Participant in the Plan as if assets were invested in a trust. All amounts credited to the Personal Accounts of a Participant shall at all times be held in the Company's general funds as part of the Company's general assets, unless a trust is established pursuant to Section 7.08.

The value, including gains and losses, of such accounts and funds shall be determined by the Plan Administrator in the same manner that the value is determined under the Savings Plan. As of each Valuation Date, the net asset value of a unit shall equal the net asset value of a unit as determined under the Savings Plan.

No funds shall be allocated by the Company to any Personal Account or Mirror Investment Fund under the Plan.

3.02 Personal Accounts

All amounts deferred by an Active Participant pursuant to Article Two shall be credited to his Personal Accounts within his Mirror Investment Funds specified in his investment election.

ARTICLE FOUR

TRANSFERS

4.01 Personal Accounts

A Participant may elect, once in each calendar day of the Plan Year, to transfer an amount (in whole percentages) equal to the value of all or part of his units in his Personal Accounts within any one or more of the Mirror Investment Funds to another one or more of his Personal Accounts within the Mirror Investment Funds. The value of such units shall be determined as of the Valuation Date. A transfer is effective only if made in the manner determined by the Plan Administrator.

ARTICLE FIVE

VESTING

5.01 Personal Accounts

A Participant shall be 100% vested in the value of his Personal Accounts within his Mirror Investment Funds at all times without regard to whether he is a Participant in the Plan for any future Plan Year.

ARTICLE SIX

TYPE OF PLAN

6.01 Top Hat Plan

The Plan is intended to be a "pension plan" as defined in ERISA and is maintained by the Company on an unfunded basis primarily for the purpose of providing deferred compensation to a select group of management or highly compensated employees. As such, the Plan is intended to be construed so as not to provide income to any Participant or Beneficiary for purposes of the Internal Revenue Code prior to actual receipt of benefit payments under the Plan.

In the event that it should subsequently be determined by statute or by regulation or ruling that the Plan is not "a plan which is unfunded and is maintained primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees" within the meaning of sections 201(2), 301(a)(3), 401(a)(1), and 4021(b)(6) of ERISA and section 2520.104-24 of Chapter 29 of the Code of Federal Regulations, participation in the Plan shall be restricted by the Plan Administrator to the extent necessary to assure that it will be such a plan within the meaning of such sections.

Notwithstanding any other provision of the Plan, if the benefits of a Participant become taxable prior to distribution from the Plan, such amounts shall be distributed as soon as practicable to the affected Participant.

6.02 No Funding

Plan benefits shall be payable solely from the general assets of the Company. The Company shall not be required to, but may at its discretion, segregate or physically set aside any funds or assets attributable to Plan benefits. The Company shall retain title to and beneficial ownership of all assets of the Company, including any assets which may be used to pay Plan benefits. The cost of the Plan shall be expensed and a book reserve shall be maintained on the Company's financial statements.

No Participant or Beneficiary shall be deemed to have, pursuant to the Plan, any legal or equitable interest in any specific assets of the Company. To the extent that any Participant or Beneficiary acquires any right to receive Plan benefits, such right shall arise merely as a result of a contractual obligation and shall be no greater than, nor have any preference or priority over, the rights of any general unsecured creditor of the Company.

ARTICLE SEVEN

DISTRIBUTIONS

7.01 Normal Form of Payment

The normal form of payment of benefits under the Plan shall be 5 substantially equal annual installments payable in accordance with Section 7.02 below.

7.02 Separation from Service

A Participant who has a Separation from Service for a reason other than death shall be entitled to receive the vested benefits in his Personal Accounts in 5 substantially equal annual installments.

The first annual installment shall be paid in January following the year in which occurs his Separation from Service. Each annual installment thereafter shall be paid in January of each year. Payment dates shall be determined by the Plan Administrator.

Notwithstanding the foregoing, if the present value of the Participant's vested benefits does not exceed $5,000, such benefits shall be distributed to the Participant in a single sum payment in January following the year in which occurs the later of (a) his Separation from Service or (b) the date of receipt by the Plan Administrator of the Participant's notice of employment termination. Such present value shall be determined as of the date of receipt by the Plan Administrator of the Participant's notice of employment termination; provided, however, that if the participant had a Separation from Service before January 1, 2000, such present value shall be determined as of December 31, 1999. The payment date shall be determined by the Plan Administrator.

7.03 Death

The Beneficiary of a Participant who (1) has a Separation from Service because of death, or (2) dies after his Separation from Service but before receiving all of his vested Plan benefits shall be entitled to receive the remaining annual installments to which the Participant was entitled as of the date of death. The first annual installment payable to the Beneficiary shall be paid in January following the Participant's date of death, or, if later, after satisfactory proof of death is received by the Plan Administrator. Each annual installment thereafter shall be paid in January of each year. Payment dates shall be determined by the Plan Administrator.

A single-sum distribution shall be paid to the estate of the Participant if as of the date of death (1) no valid beneficiary designation by the Participant is on file with the Plan Administrator, or (2) the Beneficiary has predeceased the Participant, or (3) the Beneficiary has died within 30 days after the participant's date of death.

A single-sum distribution shall be paid to the estate of the Beneficiary if the Beneficiary dies before receiving all benefits to which he was entitled under the Plan.

Notwithstanding the foregoing, if the present value of the participant's vested benefits does not exceed $5,000, such benefits shall be distributed to the Beneficiary of the Participant in a single sum payment in January following the Participant's date of death, or, if later, after satisfactory proof of death is received by the Plan Administrator. The payment date shall be determined by the Plan Administrator.

7.04 Alternate Form of Payment

A Participant entitled to receive benefits under Section 7.02 above may make an irrevocable election to receive (1) not more than 15 substantially equal annual installments, or (2) a single-sum distribution. The election must be made prior to the Participant's Separation from Service in a manner authorized by the Plan Administrator. If no election has been made by the Participant, benefits shall be paid in the normal form of payment in accordance with Section 7.02 above.

The first annual installment or single-sum distribution shall be paid in January following the year in which occurs his Separation from Service; provided, however, that the first annual installment or single-sum distribution shall not be paid until the January following the expiration of at least one calendar year after the year in which the Participant's election is made. Each annual installment thereafter shall be paid in January of each year.

A Participant also may make an irrevocable election to defer payment of the first installment or single-sum distribution to January of a later year provided the election is made prior to the Participant's Separation from Service in a manner authorized by the Plan Administrator. If no election has been made by the Participant, benefits shall commence in accordance with Section 7.02 or Section 7.04 above, whichever is applicable.

A Participant who elects both to change the normal form of payment and to defer payment must make the elections at the same time.

7.05 Hardship Distribution

A Participant or Beneficiary entitled to vested benefits under the Plan may request a single-sum distribution to satisfy a severe financial hardship resulting from an unforseen event or emergency (as defined below) beyond his control. The distribution shall be limited to the amount necessary to satisfy the severe financial hardship (including any applicable federal, state or local taxes attributable to such distribution), and shall not exceed the current value of vested benefits payable to or on behalf of the Participant or Beneficiary.

An unforeseen event or emergency may include, but is not limited to, a sudden and unexpected illness or accident of the Participant or Beneficiary or his dependent, loss of his property due to casualty, or other similar extraordinary and unforeseeable

circumstances arising as the result of events beyond his control, but shall not include the purchase of his home or the college expenses of his child.

The determination of the existence of a severe financial hardship and the approval of a hardship distribution shall be made by the Vice President and Director of Human Resources (or his successor by title or position) or his delegate except as provided below. Approval shall be given only if, taking into account all of the facts and circumstances, continued deferral of benefits or adherence to the Plan's payment schedule would result in a severe financial hardship to the Participant or Beneficiary. Approval shall not be granted if such hardship is or may be relieved through insurance, by liquidation of his assets (to the extent such liquidation would not itself cause severe financial hardship), or by terminating his Election to Defer.

With respect to a Participant who is a member of the Management Committee of the Company or a Participant who is subject to Section 16(b) of the Exchange Act, the determination of the existence of a severe financial hardship and the approval of the hardship distribution shall be made by the Human Resources and Compensation Committee.

In the case of a Participant or Beneficiary who receives a partial hardship distribution while receiving benefit payments, the regular payment schedule of the Participant or Beneficiary shall continue following such distribution.

7.06 Fund-Specific Installments or Hardship Distributions

The payment to a Participant or Beneficiary of installments or a hardship distribution shall reduce the value of his accounts in his Mirror Investment Fund(s) as designated by the Participant or Beneficiary. In the event the Participant or Beneficiary fails to designate the Mirror Investment Funds from which payment is to be made, the value of his Mirror Investment Funds shall be reduced on a pro-rata basis.

7.07 Form of Payments

Payment of all benefits from the Plan shall be made only by check. No payments of Company stock shall be permitted.

7.08 Change of Control

At the time of commencement of participation in the Plan, a Participant may make an irrevocable election to have his Plan benefits paid in a single-sum immediately upon a Change of Control (as hereafter defined). If the Participant makes such an election as described above, his vested Plan benefits shall be paid in a single-sum upon a Change of Control.

If the Participant does not make such an election, then, upon a Change of Control, assets of the Company in an amount sufficient to pay benefits then due under the Plan

shall immediately be transferred to a grantor trust to be established by the Company for the purpose of paying benefits hereunder, and the Personal Account and Company Account shall thereafter be paid to the Participant from such trust in accordance with the terms of the Plan; provided that at the time of such Change of Control, the Participant may make an irrevocable election to have his Plan benefits paid in a single-sum immediately, in which event the Participant's benefits shall be reduced by 10% as a penalty for early withdrawal, and the Participant shall receive a single-sum payment of only 90% of his benefits otherwise payable under the Plan. On each anniversary date of the date of a Change of Control, the Company shall transfer to the grantor trust an amount necessary to pay all benefits accrued under the Plan during the preceding twelve months.

For purposes of this Section 7.08, a Change of Control shall be deemed to have occurred if the event set forth in any one of the following paragraphs shall have occurred:

(a) any Person is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company (not including in the securities beneficially owned by such Person any securities acquired directly from the Company or its Affiliates) representing 50% or more of the combined voting power of the Company's then outstanding securities; or

(b) during any period of two consecutive calendar years, the following individuals cease for any reason to constitute a majority of the number of directors then serving as directors of the Company: individuals, who on July 14, 1999 constitute the Board of Directors of the Company and any new director (other than a director whose initial assumption of office is in connection with the settlement of an actual or threatened election contest, including but not limited to a consent solicitation, relating to the election of directors of the Company) whose appointment or election by the Board of Directors of the Company or nomination for election by the Company's stockholders was approved or recommended by a vote of at least two-thirds of the directors then still in office who either were directors on July 14, 1999 or whose appointment, election or nomination for election was previously so approved or recommended; or

(c) there is consummated a merger or consolidation of the Company or any direct or indirect subsidiary of the Company with any other corporation or entity, other than (i) a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior to such merger or consolidation continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or any Parent thereof), in combination with the ownership of any trustee or other fiduciary holding securities under an employee benefit plan of the Company or any subsidiary of the Company, at least 50% of the combined voting power of the securities of the Company, such surviving entity or any Parent thereof outstanding immediately after such merger or consolidation, or (ii) a merger or consolidation effected solely to implement a recapitalization of the Company (or similar transaction) in which no Person is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company (not including in the securities beneficially owned by such Person any securities acquired directly from the Company or its Affiliates) representing 50% or more of the combined voting power of the Company's then outstanding securities; or

(d) the stockholders of the Company approve a plan of complete liquidation or dissolution of the Company, or there is consummated a sale or disposition by the Company or any of its subsidiaries of any assets which individually or as part of a series of related transactions constitute all or substantially all of the Company's consolidated assets, other than any such sale or disposition to an entity at least 50% of the combined voting power of the voting securities of which are owned by stockholders of the Company in substantially the same proportions as their ownership of the voting securities of the Company immediately prior to such sale or disposition; or

(e) the execution of a binding agreement that if consummated would result in a Change of Control of a type specified in subparagraphs (a) or (c) above (an "Acquisition Agreement") or of a binding agreement for the sale or disposition of assets that, if consummated, would result in a Change of Control of a type specified in subparagraph (d) above (an "Asset Sale Agreement") or the adoption by the Board of Directors of the Company of a plan of complete liquidation or dissolution of the Company that, if consummated, would result in a Change of Control of a type specified in subparagraph (d) above (a "Plan of Liquidation"), provided, however, that a Change of Control of the type specified in this subparagraph (e) shall not be deemed to exist or have occurred as a result of the execution of such Acquisition Agreement or Asset Sale Agreement, or the adoption of such a Plan of Liquidation, from and after the Abandonment Date. As used in this subparagraph (e), the term "Abandonment Date" shall mean the date on which (i) an Acquisition Agreement, Asset Sale Agreement or Plan of Liquidation is terminated (pursuant to its terms or otherwise) without having been consummated, (ii) the parties to an Acquisition Agreement or Asset Sale Agreement abandon the transactions contemplated thereby, (iii) the Company abandons a Plan of Liquidation, or (iv) a court or regulatory body having competent jurisdiction enjoins or issues a cease and desist or stop order with respect to or otherwise prevents the consummation of, or a regulatory body notifies the Company that it will not approve an Acquisition Agreement, Asset Sale Agreement or Plan of Liquidation or the transactions contemplated thereby and such injunction, order or notice has become final and not subject to appeal; or

(f) the Board adopts a resolution to the effect that, for purposes of this Plan, a Change of Control has occurred.

Notwithstanding the foregoing, a Change of Control shall not be deemed to have occurred by virtue of the consummation of any transaction or series of integrated transactions immediately following which the record holders of the common stock of the Company immediately prior to such transaction or series of transactions continue to have substantially the same proportionate ownership in an entity (i) which owns all or substantially all of the assets of the Company immediately following such transaction or series of transactions, (ii) which is intended to reflect or track the value or performance of a particular division, business segment or subsidiary of the Company, or (iii) which is an affiliated company, subsidiary, or spin-off entity owned by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company on the date of such spin-off.

As used in connection with the foregoing definition of Change of Control, "Affiliate" shall have the meaning set forth in Rule 12b-2 promulgated under Section 12 of the Exchange Act; "Beneficial Owner" shall have the meaning set forth in Rule 13d-3 under the Exchange Act; "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended from time to time; "Parent" shall mean any entity that becomes the Beneficial Owner of at least 50% of the voting power of the outstanding voting securities of the Company or of an entity that survives any merger or consolidation of the Company or any direct or indirect subsidiary of the Company; and "Person" shall have the meaning given in Section 3(a)(9) of the Exchange Act, as modified and used in Sections 13(d) and 14(d) thereof, except that such term shall not include (i) the Company or any of its subsidiaries, (ii) a trustee or other fiduciary holding securities under an employee benefit plan of the Company or any of its Affiliates, (iii) an underwriter temporarily holding securities pursuant to an offering of such securities, or (iv) a corporation or entity owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company.

7.09 Reemployed Participants

If the Participant is reemployed, his scheduled payments under Section 7.02 or Section 7.04 shall cease and his election, if any, under Section 7.04 shall be void. The Participant may make a new election under Section 7.04 prior to his subsequent Separation from Service that shall apply to any unpaid benefits and to any additional benefits payable to or on behalf of the Participant because of a subsequent Separation from Service.

If no new election is made by the Participant, benefits shall be paid in the normal form of payment in accordance with Section 7.02 above.

ARTICLE EIGHT

AMENDMENT AND TERMINATION

8.01 Plan Amendment

The Human Resources and Compensation Committee may amend the Plan at any time and from time to time, without prior notice to any Participant or Beneficiary; provided, however, that the Human Resources Committee also may make amendments that relate primarily to the administration of the Plan, are applied in a uniform and consistent manner to all Participants, and are reported to the Human Resources and Compensation Committee.

8.02 Plan Termination

The Board of Directors of the Company may terminate or discontinue the Plan at any time. If the Plan is terminated, it shall be on such terms and conditions as the Board of Directors of the Company shall deem appropriate.

8.03 Automatic Plan Termination

This Plan is expressly conditioned on the continued deferral of income tax on amounts deferred by a Participant under the Plan until such amounts are actually distributed to the Participant. If, as a result of an adverse determination by the Internal Revenue Service or a change in the tax laws or applicable income tax regulations, amounts deferred by Participants under the Plan become subject to income tax prior to the actual distribution of such amounts, the Plan and each Election to Defer hereunder shall automatically terminate as of the effective date of such change in the law without any formal action by the Board of Directors to terminate the Plan.

ARTICLE NINE

MISCELLANEOUS

9.01 Plan Administration

The Plan shall be administered under the direction of the Benefit Plans Review Committee. Except as otherwise provided below, the Benefits Administration Committee shall be considered the Plan Administrator for purposes of ERISA.

The Human Resources and Compensation Committee may delegate all or some of the responsibility for the administration of the Plan to the Human Resources Committee or the Benefits Administration Committee in which case such Committee shall assume such delegated power and authority in administering the Plan to that extent; provided, however, that in no event shall the Human Resources Committee or the Benefits Administration Committee have any power or authority with respect to matters involving a Participant who is a member of the Management Committee of the Company or a Participant who is subject to Section 16(b) of the Exchange Act.

The Plan Administrator has the authority and discretion to construe and interpret the Plan. As part of this authority, the Plan Administrator has the discretion to resolve inconsistencies or ambiguities in the language of the Plan, to supply omissions from or correct deficiencies in the language of the Plan, and to adopt rules for the administration of the Plan which are not inconsistent with the terms of the Plan. The Plan Administrator also has the authority and discretion to resolve all questions of fact relating to any claim for benefits as to any matter for which the Plan Administrator has responsibility. All determinations of the Plan Administrator are final and binding on all parties.

Each person considered to be a fiduciary with respect to the Plan shall have only those powers and responsibilities as are specifically given that person under this Plan. It is intended that each such person shall be responsible for the proper exercise of his or her own powers and responsibilities, and shall not be responsible for any act or failure to act of any other person considered to be a fiduciary or any act or failure to act of any person considered to be a non-fiduciary.

9.02 Plan Expenses

All Plan administration expenses incurred by the Company or the Plan Administrator shall be paid by the Company.

9.03 Effect on Other Benefits

Participation in the Plan shall not reduce any welfare benefits or retirement benefits offered by the Company, except that the amounts deferred under the Plan and any Plan benefits shall not be considered "Compensation" for purposes of the Savings Plan.

9.04 No Guarantee of Employment

Neither participation in the Plan nor any action taken under the Plan shall confer upon a Participant any right to continue in the employ of an Employer or affect the right of such Employer to terminate the Participant's employment at any time.

9.05 Disclaimer of Liability

The Employer shall be solely responsible for the payment of Plan benefits hereunder. The members of the Human Resources and Compensation Committee and the Human Resources Committee, and the officers, directors, employees, or agents of the Company or any other Employer, shall not be liable for such benefits. Unless otherwise required by law, no such person shall be liable for any action or failure to act, except where such act or omission constitutes gross negligence or willful or intentional misconduct.

9.06 Severability

If any provision of the Plan shall be held invalid or unenforceable, such invalidity or unenforceability shall apply only to that provision, and shall not affect or render invalid or unenforceable any other provision of the Plan. In such event, the Plan shall be administered and construed as if such invalid or unenforceable provision were not contained herein. If the application of any Plan provision to any Participant or Beneficiary shall be held invalid or unenforceable, the application of such provision to any other Participant or Beneficiary shall not in any manner be affected thereby.

9.07 Successors

The Plan and any Election to Defer shall be binding on (i) the Company and its successors and assigns, (ii) any Employer and its successors and assigns, (iii) each Participant, (iv) each Beneficiary, and (v) the heirs, distributees, and legal representatives of each Participant and Beneficiary.

9.08 Governing Law

Except to the extent that the Plan may be subject to the provisions of ERISA, the Plan shall be construed and enforced according to the laws of the State of Texas without giving effect to the conflict of laws principles thereof. In the event limitations imposed by ERISA on legal actions do not apply, the laws of the State of Texas shall apply, and a cause of action under the Plan must be brought no later than four years after the date the action accrues.

9.09 Construction

As used herein, the masculine shall include the feminine, the singular shall include the plural, and vice versa, unless the context clearly indicates otherwise. Titles and headings herein are for convenience only and shall not be considered in construing the

Plan. The words "hereof," "hereunder", and other similar compounds of the word "here" shall mean and refer to the entire Plan and not to any particular provision or Section.

9.10 Taxes

Any taxes imposed on Plan benefits shall be the sole responsibility of the Participant or Beneficiary. The Company shall deduct from Plan benefits any federal taxes, state taxes, local taxes, or other taxes required to be withheld. The Company shall, unless the Plan Administrator elects otherwise, withhold such taxes at the applicable flat rate percentage. The Company shall also deduct from any payment of Compensation, including any cash incentive payments, on the date such payment would have been made if not deferred under this Plan Social Security and Medicare taxes or other taxes required to be withheld on such date.

9.11 Non-Assignability

Unless otherwise required by law, and prior to distribution to a Participant or Beneficiary, Plan benefits shall not be subject to assignment, transfer, sale, pledge, encumbrance, alienation, or charge by such Participant or Beneficiary, and any attempt to do so shall be void. Plan benefits shall not be liable for or subject to garnishment, attachment, execution, or levy, or liable for or subject to the debts, contracts, or liabilities of the Participant or Beneficiary; provided, however, that the Company may offset from the payment of any Plan benefits to a Participant or Beneficiary amounts owed by the Participant to an Employer.

9.12 Claims Procedure

If a Participant or Beneficiary ("claimant") does not receive the benefits which the claimant believes he is entitled to receive under the Plan, the claimant may file a claim for benefits with the Director of Personnel (or his successor by title or position). All claims must be made in writing and must be signed by the claimant. If the claimant does not furnish sufficient information to determine the validity of the claim, the Director of Personnel will indicate to the claimant any additional information which is required.

Each claim will be approved or disapproved by the Director of Personnel within 90 days following receipt of the information necessary to process the claim. In the event the Director of Personnel denies a claim for benefits in whole or in part, the Director of Personnel will notify the claimant in writing of the denial of the claim. Such notice by the Director of Personnel will also set forth, in a manner calculated to be understood by the claimant, the specific reasons for such denial, the specific Plan provisions on which the denial is based, a description of any additional material or information necessary to perfect the claim with an explanation of why such material or information necessary, and an explanation of the Plan's claim review procedure as set forth below. If no action is taken by the Director of Personnel on or a claim within 90 days, the claim will be deemed to be denied for purposes of the review procedure below.

A claimant may appeal a denial of his or her claim by requesting a review of the decision by the Plan Administrator. An appeal must be submitted in writing within six months after the denial and must (i) request a review of the claim for benefits under the Plan, (ii) set forth all the grounds upon which the claimant's request for review is based and any facts in support thereof, and (iii) set forth any issues or comments which the claimant deems pertinent to the appeal.

The Plan Administrator will make a full and fair review of each appeal and any written materials submitted in connection with the appeal. The Plan Administrator will act upon each appeal within 60 days after receipt thereof, unless special circumstances require an extension of the time for processing, in which case a decision will be rendered as soon as possible but not later than 120 days after the appeal is received. The claimant will be given the opportunity to review pertinent documents or materials upon submission of a written request to the Plan Administrator, provided the Plan Administrator finds the requested documents or materials pertinent to the appeal. On the basis of its review, the Plan Administrator will make an independent determination of the claimant's eligibility for benefits under the Plan.

The decision of the Plan Administrator on any claim for benefits will be final and conclusive upon all parties thereto. In the event the Plan Administrator denies an appeal in whole or in part, the Plan Administrator will give written notice of the decision to the claimant, which notice will set forth, in a manner calculated to be understood by the claimant, the specific reasons for such denial and specific reference to the pertinent Plan provisions on which the decision was based.

APPROVAL FORM

Pursuant to authority granted to me by the Board of Directors of J.C. Penney Company, Inc. at its meeting held on December 5, 2001, I hereby approve the amendments to the J.C. Penney Company, Inc. Pension Plan, the J.C. Penney Company, Inc. Savings, Profit-Sharing and Stock Ownership Plan, the J.C. Penney Company, Inc. Benefit Restoration Plan, the Supplemental Retirement Program for Management Profit-Sharing Associates of J.C. Penney Company, Inc., the J.C. Penney Company, Inc. Voluntary Early Retirement Plan, the J.C. Penney Company, Inc. Mirror Savings Plans I, II, and III, the J.C. Penney Company, Inc. Separation Pay Plan, and the JCP Telecom Systems, Inc. Early Retirement Plan in the forms annexed hereto as Exhibit A.

Dated as of January 27, 2002.

/s/ Gary L. Davis

Gary L. Davis
Executive Vice President,
Chief Human Resources and
Administration Officer

Approval of Counsel:

/s/ T.P. Blaylock
- -------------------------------------
T.P. Blaylock

/s/ M.E. White
- -------------------------------------
M.E. White

EXHIBIT A

WHEREAS, the Board of Directors of J.C. Penney Company, Inc. authorized an Agreement and Plan of Merger (the "Merger Agreement") between J.C. Penney Company, Inc. ("Company"), J.C. Penney Holdings, Inc., a Delaware corporation ("Holdings"), and JCP Merger Sub, Inc., a Delaware corporation and wholly-owned subsidiary of Holdings ("Merger Sub");

WHEREAS, pursuant to the Merger Agreement, Merger Sub will merge with and into the Company, with Company surviving as a wholly-owned subsidiary of Holdings (the "Merger");

WHEREAS, pursuant to the Merger, Holdings will amend and restate its certificate of incorporation to inter alia, change its name to "J.C. Penney Company, Inc.";

WHEREAS, pursuant to the Merger, the Company will amend and restate its certificate of incorporation to inter alia, change its name to "J.C. Penney Corporation, Inc.";

NOW, THEREFORE, as authorized by the Board of Directors on December 5, 2001, the J.C. Penney Company, Inc. Pension Plan (As Amended and Restated Effective January 1, 2001); the J.C. Penney Company, Inc. Savings, Profit-Sharing and Stock Ownership Plan; the J.C. Penney Company, Inc. Benefit Restoration Plan, the Supplemental Retirement Program for Management Profit-Sharing Associates of J.C. Penney Company, Inc.; the J.C. Penney Company, Inc. Voluntary Early Retirement Plan; the J.C. Penney Company, Inc. Mirror Savings Plans I, II, and III, the J.C. Penney Company, Inc. Separation Pay Plan, and the JCP Telecom Systems, Inc. Early Retirement Plan be, and they hereby are, amended, effective as of January 27, 2002, as set forth in Exhibits 1, 2, 3, 4, 5, 6, 7, and 8, respectively.

EXHIBIT 5

AMENDMENT TO
J. C. PENNEY COMPANY, INC.
MIRROR SAVINGS PLANS I, II AND III

1. The names of the Plans are changed effective January 27, 2002 to J. C. Penney Corporation, Inc. Mirror Savings Plan I, J. C. Penney Corporation, Inc. Mirror Savings Plan II, and J. C. Penney Corporation, Inc. Mirror Savings Plan III in each place they appear including the definitions in Article One of each Plan.

2. The definitions in Article One entitled Company and Savings Plan are amended effective January 27, 2002 and a new definition entitled Parent Company is added effective January 27, 2002 to read as follows:

   Company: Prior to January 27, 2002, J. C. Penney Company, Inc., a Delaware corporation, and on and after January 27, 2002, J. C. Penney Corporation, Inc., a Delaware corporation. The term "Company" will also include any successor employer, if the successor employer expressly agrees in writing as of the effective date of succession to continue the Plan.

   Parent Company: J. C. Penney Company, Inc., a Delaware corporation, and any successor corporation.

   Savings Plan: Prior to January 27, 2002, the J. C. Penney Company, Inc. Savings Plan, as amended from time to time, and on and after January 27, 2002, the J. C. Penney Corporation, Inc. Savings Plan, as amended from time to time.

3. Section 2.05 is amended effective January 1, 2002 to delete "$160,000" and to substitute therefor "$200,000".

4. Section 7.08 is amended effective January 27, 2002 to delete the word "Company" and to substitute therefor the words "Parent Company" in each place in which it appears.

EXHIBIT 10(ii)(ab)

INDEMNIFICATION AGREEMENT

among

J. C. PENNEY COMPANY, INC.,

J. C. PENNEY CORPORATION, INC.

and

____

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INDEMNIFICATION AGREEMENT

This INDEMNIFICATION AGREEMENT made and entered into as of the _____ day of ________ 2002 ("Agreement") by and among J. C. PENNEY COMPANY, INC., a Delaware corporation, J. C. PENNEY CORPORATION, INC., a Delaware corporation (formerly known as J. C. Penney Company, Inc., and now a wholly-owned subsidiary of J. C. Penney Company, Inc.) (J. C. Penney Company, Inc. and J. C. Penney Corporation, Inc. herein collectively called the "Companies"), and __________________________________ ("INDEMNITEE"):

WHEREAS, competent and experienced persons are becoming more reluctant to serve as directors or officers of publicly-held corporations unless they are provided with adequate protection against claims and actions against them for their activities on behalf or at the request of such corporations, generally through insurance and indemnification; and

WHEREAS, uncertainties in the interpretations of the statutes and regulations, laws and public policies relating to indemnification of corporate directors and officers are such as to make adequate, reliable assessment of the risks to which directors and officers of publicly held corporations may be exposed difficult, particularly in light of the proliferation of lawsuits against directors and officers; and

WHEREAS, the Boards of Directors of the Companies, based upon their business experience, have concluded that the continuation of present trends in litigation against corporate directors and officers will inevitably make it more difficult for the Companies to attract and retain directors and officers of the highest degree of competence committed to the active and effective direction and supervision of the business and affairs of the Companies and their subsidiaries and affiliates and the operation of their facilities, and the Boards deem such consequences to be so detrimental to the best interests of the Companies' stockholders that they have concluded that the Companies should act to provide their directors and officers with enhanced protection against inordinate risks attendant on their positions in order to assure that the most capable persons otherwise available will be attracted to such positions and, in such connection, said directors have further concluded that it is not only reasonable and prudent but necessary for the Companies to contractually obligate themselves to indemnify to the fullest extent permitted by applicable law their directors and certain of their officers and certain persons serving other entities at the request, or on behalf, of the Companies and to assume, to the maximum extent permitted by applicable law, financial responsibility for expenses and liabilities which might be incurred by such individuals in connection with claims lodged against them for their decisions and actions in such capacities; and

WHEREAS, Section 145 of the General Corporation Law of the State of Delaware, under which law the Companies are organized, empowers a corporation organized in Delaware to indemnify persons who serve as directors, officers, employees or agents of the corporation or persons who serve at the request of the corporation as directors, officers, employees or agents of another corporation, partnership, joint venture, employee benefit plan, trust or other enterprise, and further specifies that the indemnification provided by said section "shall not be deemed exclusive of any other rights to which those seeking indemnification may be entitled under any bylaw, agreement, vote of stockholders or disinterested directors or otherwise", and further empowers a corporation to "purchase and maintain insurance" on behalf of such persons "against any liability asserted against him or incurred by him in any such capacity, or arising out of his status as such, whether or not the corporation would have the power to indemnify him against such liability under the provisions of" said laws; and

WHEREAS, the Bylaws of the Companies permit indemnification in accordance with and to the full extent permitted by the laws of the State of Delaware, and resolutions adopted by the Board of Directors of J. C. Penney Corporation, Inc. on December 30, 1975, require that directors, officers and employees of the Companies acting as fiduciaries (within the meaning of the Employee Retirement Income Security Act of 1974) with respect to any of the Companies' employee benefit and welfare plans be indemnified in accordance with the

terms set forth in said resolution; and

WHEREAS, the Companies have (i) reviewed the type of insurance available to insure the directors and officers of the Companies and of their affiliates against costs, expenses (including attorneys' fees and disbursements), judgments, penalties, fines and amounts paid in settlement actually and reasonably incurred by them in connection with any action, suit or proceeding to which they are, or are threatened to be made, a party by reason of their status and/or decisions or actions in such positions, (ii) studied the nature and extent of the coverage provided by such insurance and the cost thereof to the Companies, (iii) purchased such insurance to the extent reasonably available, and (iv) concluded, notwithstanding the purchase of such insurance to the extent reasonably available, that it would be in the best interests of the Companies and their stockholders for the Companies to enter into agreements to indemnify certain of such persons in the form of this Agreement, inasmuch as such insurance is, and is likely to continue to be, subject to certain significant exclusions and limitations or could cease to be reasonably available on any basis; and

WHEREAS, to further assure that the directors and officers of the Companies and persons serving other entities at the request, or on behalf, of the Companies will obtain the protections contemplated by this Agreement, notwithstanding future uncertainties, the Companies have concluded that it would be in the best interests of

the stockholders for such contractual indemnification to be supported by a trust fund to be established by the Companies; and

WHEREAS, the Companies desire to have INDEMNITEE serve or continue to serve as a director or officer of J. C. Penney Company, Inc. and/or J. C. Penney Corporation, Inc., and/or as a director, officer, employee, partner, trustee, agent or fiduciary of such other corporations, partnerships, joint ventures, employee benefit plans, trusts or other enterprises (herein collectively called "Company Affiliate") of which he or she has been or is serving, or will serve, at the request of or for the convenience of or to represent the interests of the Companies, free from undue concern for unpredictable, inappropriate or unreasonable claims for damages by reason of his or her being a director or officer of the Companies or a director, officer, employee, partner, trustee, agent or fiduciary of a Company Affiliate or by reason of his or her decisions or actions on their behalf; and

WHEREAS, INDEMNITEE is willing to serve, or to continue to serve, or to take on additional service for, J. C. Penney Company, Inc. and/or J. C. Penney Corporation, Inc., and/or the Company Affiliates in such aforesaid capacities on the condition that he or she be indemnified as provided for herein;

NOW, THEREFORE, in consideration of the premises and the covenants contained herein, the Companies and INDEMNITEE do hereby covenant and agree as follows:

1. Services to the Companies. INDEMNITEE will serve and/or continue to serve as a director and/or officer of either or both of the Companies (in the case of an officer of either or both, at the will of J. C. Penney Company, Inc. and/or J. C. Penney Corporation, Inc., as applicable, or under separate contract, if any such contract exists or shall hereafter exist) and/or as a director, officer, employee, partner, trustee, agent or fiduciary of a Company Affiliate faithfully and to the best of his or her ability so long as he or she is duly elected and qualified in accordance with the provisions of the Bylaws or other applicable constitutive documents thereof; provided that INDEMNITEE may at any time and for any reason resign from such position (subject to any contractual obligations which INDEMNITEE shall have assumed apart from this Agreement) and further provided that neither the Companies nor any Company Affiliate shall have any obligation under this Agreement to continue the INDEMNITEE in any such position.

2. Indemnification.

(a) Except as otherwise expressly provided in this Agreement or prohibited by applicable law, the Companies, within 60 days (or such longer period, if any, as may be permitted by Section 4(a) hereof) after receipt of a written statement from INDEMNITEE requesting indemnification and reasonably evidencing the costs, expenses, judgments, penalties, fines and amounts in settlement incurred by him or

her, shall, in accordance with the applicable provisions of this Agreement, fully indemnify INDEMNITEE if INDEMNITEE is or was made a party or is threatened to be made a party to any Proceeding (as hereinafter defined) by reason of the fact that he or she is or was a director, officer, employee, agent or fiduciary of the Companies or is or was serving at the request of or for the convenience of or to represent the interests of either or both of the Companies as a director, officer, employee, partner, trustee, agent or fiduciary of a Company Affiliate, or by reason of anything done or not done by him or her in any such capacity (all of the foregoing reasons being herein collectively called "Qualifying Reasons"), against costs, expenses (including attorneys' fees and disbursements), judgments, penalties, fines and amounts in settlement incurred by him or her in connection with such Proceeding (including, but not limited to, the investigation, defense, settlement, or appeal thereof). In the event that both the foregoing sentence and Section 2(b) hereof would be applicable to the indemnification being sought, the provisions of Section 2(b) shall govern. For purposes of this Agreement, (i) a "Proceeding" shall mean any threatened, pending or completed investigation, action, suit, arbitration, alternate dispute resolution mechanism, or any other proceeding (including any appeals therefrom), whether civil, criminal, administrative or investigative in nature and whether in a court or arbitration, or before or involving a governmental, administrative or

private entity (including, but not limited to, an investigation initiated by either or both of the Companies, a Company Affiliate, or the Board of Directors or fiduciaries of any thereof), (ii) references to "fines" shall include any excise taxes assessed on INDEMNITEE with respect to any employee benefit or welfare plan, and (iii) references to "serving at the request of either or both of the Companies" shall include, without limitation, any service, while serving as a director, officer, employee, partner, trustee, agent or fiduciary of either or both of the Companies or any Company Affiliate which imposes duties on, or involves services by, INDEMNITEE with respect to any employee benefit or welfare plan of either or both of the Companies or any Company Affiliate, its participants or beneficiaries.

(b) Notwithstanding any other provision of this Agreement (except as set forth in Section 2(c) hereof), and without a requirement for any determination as described in Section 4(a) hereof, to the extent INDEMNITEE (i) has prepared to serve or has served as a witness in any Proceeding in any way relating to either or both of the Companies, any Company Affiliate, any affiliate (as defined in Rule 405 under the Securities Act of 1933, as amended) of either or both of the Companies ("Securities Act Affiliate"), any associate (as defined in said Rule 405) of either or both of the Companies or of any Securities Act Affiliate or Company Affiliate, or anything done or not done by INDEMNITEE as a director,

officer, employee, partner, trustee, agent, or fiduciary of either or both of the Companiesor any Company Affiliate or (ii) has been successful on the merits or otherwise (including, without limitation, the dismissal of an action without prejudice) in defense of any Proceeding arising out of a Qualifying Reason, or in the defense of any claim, issue or matter involved therein, whether in the final adjudication, arbitration or alternate dispute resolution mechanism or on appeal, the Companies shall fully indemnify him or her against costs and expenses (including attorneys' fees and disbursements) incurred by him or her in connection therewith (including, but not limited to, the preparation or service as a witness or the investigation, defense or appeal in connection with any such Proceeding) within 30 days after receipt by the Companies from INDEMNITEE of a statement requesting such indemnification, reasonably evidencing the expenses and costs so incurred by him or her and averring that they do not relate to matters of the type described in clauses (i) or (ii) of Section 2(c) hereof.

(c) Notwithstanding anything to the contrary in the foregoing provisions of this Section 2 (and except as provided in the proviso clause of this sentence), INDEMNITEE shall not be entitled, as a matter of right, to indemnification pursuant to this Section 2: (i) except as provided in Section 4(e) or 9 hereof, against costs and expenses incurred in connection with any Proceeding commenced by INDEMNITEE against either or both

of the Companies, any Company Affiliate, any Securities Act Affiliate, or any person who is or was a director or officer, in his or her respective capacity as such, of the Companies, any Company Affiliate or any Securities Act Affiliate; or (ii) against costs and expenses incurred by INDEMNITEE in connection with preparing to serve or serving, prior to a Change in Control (as defined in Section 4(d)(i) hereof), as a witness in cooperation with any party or entity, who or which has threatened or commenced any Proceeding against either or both of the Companies, any Company Affiliate or Securities Act Affiliate, or any director, officer, employee, partner, trustee, agent or fiduciary of any thereof in his or her respective capacity as such; or (iii) to the extent that INDEMNITEE has theretofore received payment pursuant to any directors and officers liability insurance policy maintained by either or both of the Companies; provided, however, that indemnification may be provided by either or both of the Companies in any specific case as contemplated by Section 6 hereof notwithstanding the applicability of the foregoing clause (i) or (ii).

(d) In the event that INDEMNITEE is serving or has served as a Representative (as such term is defined in Section 4(a) of the Indemnification Trust Agreement attached hereto as Exhibit I), then, notwithstanding any other provision of this Agreement, and without a requirement for any determination as described in Section 4(a) hereof, either or both of the

Companies, within 30 days after receipt of a statement from INDEMNITEE requesting indemnification and reasonably evidencing the costs, expenses, judgments, penalties, fines and amounts in settlement incurred by him or her, shall fully indemnify INDEMNITEE if INDEMNITEE is or was made a party or is threatened to be made a party to any Proceeding by reason of the fact that he or she is or was such a Representative or by reason of anything done or not done by him or her in such capacity, against costs, expenses (including attorneys' fees and disbursements), judgments, penalties, fines, and amounts in settlement, incurred by him or her in connection with such Proceeding, provided that no indemnification shall be made with respect to (and INDEMNITEE shall state in his or her request that he or she is not seeking indemnification with respect to) any cost, expense, judgment, penalty, fine or amount in settlement as to which there has been a final judicial determination that such amount was incurred as a direct result of willful misconduct in the course of INDEMNITEE's service as a Representative.

(e) Notwithstanding any other provision of this Agreement, indemnification shall also be made to the extent that the Court of Chancery of the State of Delaware or the court in which a Proceeding was brought shall determine that INDEMNITEE is fairly and reasonably entitled to indemnification for such costs and expenses as such court shall deem proper.

3. Partial Indemnification. If INDEMNITEE is only partially successful in
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the defense of any Proceeding arising out of a Qualifying Reason, or in the defense of any claim, issue or matter involved therein, whether in the initial adjudication, arbitration or alternate dispute resolution mechanism or on appeal, either or both of the Companies shall nevertheless indemnify

INDEMNITEE, as a matter of right pursuant to Section 2(b) hereof, to the extent INDEMNITEE has been partially successful.

4. Determination of Entitlement to Indemni-
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fication Pursuant to Section 2(a).

(a) Upon written request by INDEMNITEE for indemnification pursuant to the first sentence of Section 2(a) hereof, a determination, if required by Delaware law, with respect to INDEMNITEE's entitlement thereto shall be made not later than 60 days (provided that such 60 day period can be extended for an additional reasonable time if (x) the Companies pursuant to a request by INDEMNITEE have provided timely, continuous and effective Interval Protection (as defined in Section 7 hereof) and (y) the Companies in good faith require such additional time for the obtaining or evaluating of documentation reasonably available to INDEMNITEE) after the Companies shall have received such request (i) if a Change in Control (as hereinafter defined) shall have occurred, by Independent Counsel (as hereinafter defined) (unless INDEMNITEE shall make a request which is

timely under the circumstances that such determination be made by the Board of Directors or stockholders, in which case pursuant to clause (ii)(A) or (ii)(C) of this Section 4(a) as requested by INDEMNITEE) in a written opinion to the Board of Directors, a copy of which (including each prior draft thereof) shall be simultaneously delivered to INDEMNITEE, and (ii) in all other cases (A) by the Board of Directors of J. C. Penney Company, Inc. by a majority vote of a quorum consisting of Disinterested Directors (as hereinafter defined), or (B) if such a quorum is not obtainable or, even if obtainable, if the Board of Directors by the majority vote of Disinterested Directors so directs, by Independent Counsel in a written opinion to the Board of Directors, a copy of which shall be simultaneously delivered to INDEMNITEE or (C) by the stockholders of J. C. Penney Company, Inc. The General Counsel(s) of the Companies shall, promptly upon receipt of INDEMNITEE's request for indemnification, advise the Boards of Directors in writing that INDEMNITEE has made such request for indemnification. INDEMNITEE shall cooperate with the person or entity making such determination of INDEMNITEE's entitlement to indemnification, including providing to such person or entity upon reasonable advance request any documentation or information reasonably available to INDEMNITEE and necessary to such determination. Any costs or expenses (including attorneys' fees and disbursements) incurred by INDEMNITEE in so cooperating with the person or

entity making such determination shall be borne by the Companies (irrespective of the determination as to INDEMNITEE's entitlement to indemnification pursuant to Section 2(a) hereof) and the Companies hereby indemnify and agree to hold INDEMNITEE harmless therefrom.

(b) In making a determination of entitlement pursuant to Section 4(a) or 4(e) hereof, the person or entity making such determination shall presume that INDEMNITEE is entitled to indemnification pursuant to Section 2(a) hereof and that the Companies have the burden of proof in the making of any determination contrary to such presumption. If no determination pursuant to Section 4(a) hereof is made within 60 days (or such longer period, if any, as may be permitted by Section 4(a) hereof) of the Companies' receipt of the request therefor, the requisite determination of entitlement to indemnification shall be deemed to have been made and INDEMNITEE shall be absolutely entitled to such indemnification, absent (i) a misstatement of a material fact in the request for indemnification or an omission of a material fact necessary to make the statements in such request not materially misleading with respect to the information necessary for the determination of entitlement to indemnification or (ii) a prohibition of such indemnification under applicable law.

(c) The termination of any Proceeding by judgment, order, settlement or conviction, or upon a plea of nolo

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contendere or its equivalent, shall not, in and of itself, affect the
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rights of INDEMNITEE to indemnification or the presumptions to which INDEMNITEE is otherwise entitled pursuant to the provisions of this Agreement.

(d) For purposes of this Agreement:

(i) "Change in Control" shall mean a change in control of J. C. Penney Company, Inc. of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A (or in response to any similar item on any similar schedule or form) promulgated under the Securities Exchange Act of 1934 ("Act"), whether or not J. C. Penney Company, Inc. is then subject to such reporting requirement; provided, however, that, without limitation, such a Change in Control shall be deemed to have occurred (irrespective of the applicability of the initial clause of this definition) if (A) any "person" (as such term is used in Sections 13(d) and 14(d) of the Act, but excluding any employee benefit plan or employee stock plan of J. C. Penney Company, Inc. or any subsidiary of J. C. Penney Company, Inc., or any entity organized, appointed, established or holding securities of J. C. Penney Company, Inc. with voting power for or pursuant to the terms of any such plan) is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Act), directly or indirectly, of securities of J. C. Penney Company, Inc. representing 35%

or more of the combined voting power of J. C. Penney Company Inc.'s then outstanding securities without the prior approval of at least two-thirds of the members of the Board of Directors of J. C. Penney Company, Inc. in office immediately prior to such person's attaining such interest; (B) J. C. Penney Company, Inc. is a party to a merger, consolidation, sale of assets or other reorganization, or a proxy contest, as a consequence of which members of the Board of Directors of J. C. Penney Company, Inc. in office immediately prior to such transaction or event constitute less than a majority of the Board of Directors of J. C. Penney Company, Inc. thereafter; or (C) during any period of two consecutive years, individuals who at the beginning of such period constituted the Board of Directors of J. C. Penney Company, Inc. (including for this purpose any new director whose election or nomination for election by J. C. Penney Company, Inc.'s stockholders was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of such period) cease for any reason to constitute at least a majority of the Board of Directors of J. C. Penney Company, Inc.

(ii) "Disinterested Director" with respect to any request by INDEMNITEE for indemnification hereunder shall mean a director of J. C. Penney Company, Inc. who neither

is nor was a party to the Proceeding in respect of which indemnification is being sought by INDEMNITEE.

(iii) "Independent Counsel" shall mean a law firm or a member of a law firm (A) that neither is nor in the past five years has been retained to represent in any material matter the Companies, or any Securities Act Affiliate, or INDEMNITEE or any other party to the Proceeding giving rise to a claim for indemnification hereunder and (B) which, under applicable standards of professional conduct then prevailing, would not have a conflict of interest in representing either of the Companies or INDEMNITEE in an action to determine INDEMNITEE's right to indemnification under this Agreement and (C) that is reasonably acceptable to the Companies and INDEMNITEE. For purposes hereof, counsel shall not be deemed to represent any government or governmental entity which may have commenced any Proceeding or be asserting any claim against INDEMNITEE solely by reason of having represented any department, commission, authority, subdivision or public benefit corporation of or created by such government or governmental entity which is a party to such Proceeding or before which it is being prosecuted or which is making any such claim. In the event that the parties are unable to agree on the selection of Independent Counsel, such counsel shall be selected by lot from among the Delaware

law firms generally reputed to be experienced in corporate law and having more than 25 attorneys or New York City law firms generally reputed to be experienced in corporate law and having more than 150 attorneys and having, in each case, a rating of "av" or better in the then current Martindale-Hubbell Law Directory. Such selection shall be made in the presence of INDEMNITEE (or his or her representative), and the parties shall contact, in the order of their selection by lot, such law firms, requesting each such firm to accept an engagement to make the determination required hereunder until one of such firms accepts such engagement. The fees and expenses of counsel in connection with making any determination contemplated hereunder (irrespective of the determination as to INDEMNITEE's entitlement to indemnification) shall be paid by either or both of the Companies and, if requested by such counsel, either or both of the Companies shall promptly give such counsel an appropriate written agreement with respect to the payment of its fees and expenses and such other matters as may be reasonably requested by such counsel.

(e) In the event that pursuant to Section 4(a) hereof a determination is made that INDEMNITEE shall not be entitled to indemnification hereunder in respect of all or any part of a claim made by INDEMNITEE therefor, INDEMNITEE shall nevertheless be entitled, at his or her option, to a final

adjudication or may seek an award in arbitration regarding his or her entitlement to indemnification hereunder in respect of such claim. In the event INDEMNITEE seeks adjudication, INDEMNITEE shall initially commence, within 180 days from INDEMNITEE's receipt of notice that he or she is not entitled to indemnification, an appropriate action in an appropriate court of the State of Delaware or any other court of competent jurisdiction. In the event INDEMNITEE seeks an award in arbitration, such arbitration, which shall be conducted in Wilmington, Delaware or in New York, New York, shall be initiated by INDEMNITEE within 180 days from INDEMNITEE's receipt of notice that he or she is not entitled to indemnification, shall be conducted by a single arbitrator who is a member of a firm that would qualify as an Independent Counsel hereunder pursuant to the commercial arbitration rules of the American Arbitration Association, and the arbitrator shall notify the parties of his or her decision within 60 days following the initiation of such arbitration. The Companies hereby agree to be bound by the determination of such arbitrator and shall bear all fees, costs and expenses imposed by the American Arbitration Association on account of such proceeding, irrespective of the determination thereof. The Companies further unconditionally and irrevocably agree that their execution of this Agreement shall also constitute a stipulation by which they shall be irrevocably bound in any court or arbitration in which such proceeding shall have been

commenced, continued or appealed that (i) they shall not oppose INDEMNITEE's right to seek or obtain any such adjudication or award in arbitration or any other claim by reason of any prior determination made pursuant to this Agreement with respect to INDEMNITEE's right to indemnification under this Agreement on such claim or any other claim, or, except in good faith, raise any objections not specifically relating to the merits of INDEMNITEE's claim; (ii) for all purposes of this Agreement any such adjudication or arbitration shall be conducted de novo and without prejudice by reason of any such prior determination to the effect that INDEMNITEE is not entitled to indemnification; and (iii) it shall be bound by all provisions of this Agreement (including, but not limited to, Sections 4(b) and 4(c) hereof). Whether or not the court or arbitrator shall determine that INDEMNITEE is entitled to indemnification hereunder as to any costs, expenses (including attorneys' fees and disbursements), judgments, penalties, fines or amounts in settlement in respect of any claim, issue or matter involved in the Proceeding in respect of which indemnification is sought hereunder, either or both of the Companies shall within 30 days after written request therefor (and submission of reasonable evidence of the nature and amount thereof), and unless there is a specific judicial finding that INDEMNITEE's suit was frivolous, pay all costs and expenses (including attorneys' fees and disbursements) incurred by INDEMNITEE in

connection with such adjudication or arbitration (including, but not limited to, any appellate proceedings).

(f) If the person or entity (including the Board of Directors of J. C. Penney Company, Inc., Independent Counsel, stockholders, court or arbitrator) making the determination as to the entitlement of INDEMNITEE to indemnification hereunder shall determine that INDEMNITEE is not entitled to indemnification in respect of all claims, issues or matters involved in a Proceeding in respect of which indemnification is sought hereunder but is entitled to indemnification for some of such claims, issues or matters, such person or entity shall equitably allocate such costs, expenses (including attorneys' fees and disbursements), judgments, penalties, fines and amounts in settlement incurred in connection with such Proceeding among the claims, issues or matters involved therein and determine those for which INDEMNITEE shall be indemnified hereunder.

5. Advancement of Costs and Expenses.

(a) All costs and expenses (including attorneys' fees, retainers and advances of disbursements required of INDEMNITEE) incurred by INDEMNITEE in preparing to serve or serving as a witness in a Proceeding of the type described in clause (i) of Section 2(b) hereof, or in investigating, defending or appealing any Proceeding relating to a Qualifying Reason (and not excluded by clause (i) or (ii) of Section 2(c)

(as modified by the proviso clause contained in such Section)) or arising in connection with service as a Representative, or in connection with an adjudication or award in arbitration pursuant to Section 4(e) hereof, or relating to a Proceeding described in or arising pursuant to Section 9 hereof, shall be paid by either or both of the Companies (in advance of the final disposition of such Proceeding) at the request of INDEMNITEE within 20 days after the receipt from time to time by either or both of the Companies from INDEMNITEE of a statement or statements requesting such advance or advances, reasonably evidencing the expenses and costs incurred by him or her in connection therewith and averring that they do not relate to matters described in the aforesaid clause (i) or (ii) of Section 2(c), together with a written undertaking by INDEMNITEE to repay such amount if it is ultimately determined (in a final adjudication or conclusion of an arbitration pursuant to Section 4(e) hereof, if INDEMNITEE elects to seek such an adjudication or arbitration, and otherwise in a determination, if required hereunder, pursuant to Section 4(a) hereof) that INDEMNITEE is not entitled to be indemnified against such costs and expenses by the Companies as provided by this Agreement (or, if INDEMNITEE has sought advances (i) pursuant to Section 4(e) or 9 hereof, if there is a specific judicial finding that INDEMNITEE's suit was frivolous or (ii) in his capacity as a Representative, if there is a final judicial determination of willful misconduct in the matter giving rise to the Proceeding as to which he or she obtained an advance or advances).

(b) If and to the extent it is finally determined hereunder that INDEMNITEE is not entitled to indemnification, or is entitled only to partial indemnification, INDEMNITEE shall reimburse the Companies for all costs and expenses advanced or prepaid pursuant to INDEMNITEE's prior request or requests hereunder, or the proper proportion thereof, as the case may be, within 90 days after receipt of an itemized written statement therefor from the Companies, provided that INDEMNITEE shall have no obligation to reimburse the Companies for any of INDEMNITEE's costs and expenses relating to (i) cooperating with the Companies in making their determination, as provided in Section 4(a) hereof, (ii) an adjudication or arbitration of his or her entitlement to indemnification hereunder, as provided in Section 4(e) hereof or (iii) a Proceeding described in or arising under Section 9 hereof (unless, in the case of the foregoing clause (ii) or (iii) there is a specific judicial finding that INDEMNITEE's suit was frivolous).

6. Other Rights to Indemnification. The indemnification and advancement of costs and expenses (including attorneys' fees and disbursements) provided by this Agreement shall not be deemed exclusive of any other rights to which INDEMNITEE may now or in the future be entitled under any provision of applicable law, the

Restated Certificates of Incorporation or any Bylaw of the Companies or any other agreement or any vote of directors or stockholders or otherwise, whether as to action in his or her official capacity or in another capacity while occupying any of the positions or having any of the relationships referred to in Section 2 of this Agreement.

7. Interval Protection Against Premature Enforcement.

During the interval between the Companies' receipt of INDEMNITEE's request for indemnification and the latest to occur of (a) payment in full to INDEMNITEE of the indemnification to which he or she is entitled hereunder, or (b) a determination (if required) pursuant to Section 4(a) hereof or a final adjudication or conclusion of an arbitration pursuant to Section 4(e) hereof (if INDEMNITEE elects to seek such an adjudication or arbitration) that INDEMNITEE is not entitled to indemnification hereunder (or, if INDEMNITEE has sought indemnification in his or her capacity as a Representative, a final judicial determination of willful misconduct in the matter giving rise to the Proceeding as to which he or she is seeking indemnification), the Companies shall provide "Interval Protection" which, for purposes of this Agreement, shall mean the taking of the necessary steps (whether or not such steps require expenditures to be made by the Companies at that time) to stay, pending a final determination of INDEMNITEE's entitlement to indemnification (and, if INDEMNITEE is so entitled, the payment thereof), the execution, enforcement or collection of any judgments, penalties, fines or any other amounts for which INDEMNITEE may be

liable (and as to which INDEMNITEE has requested indemnification hereunder) in order to avoid INDEMNITEE's being or becoming in default with respect to any such amounts (such necessary steps to include, but not be limited to, the procurement of a surety bond to achieve such stay or the loan to INDEMNITEE of amounts necessary to satisfy the judgments, penalties, fines or other amounts for which INDEMNITEE may be liable and as to which a stay of execution as aforesaid cannot be obtained, the Boards of Directors by their approval of the form of the Indemnification Agreement (as hereinafter defined) having made the judgment that, in general, such loan or similar assistance may reasonably be expected to benefit the Companies), within three days after receipt of INDEMNITEE's written request therefor, together with a written undertaking by INDEMNITEE to repay, no later than 90 days following receipt of a statement therefor from the Companies, amounts (if any) expended by the Companies for such purpose, if it is ultimately determined (in a final adjudication or conclusion of an arbitration pursuant to Section 4(e) hereof, if INDEMNITEE elects to seek such an adjudication or arbitration, and otherwise in a determination (if required) pursuant to Section 4(a) hereof) that INDEMNITEE is not entitled to be indemnified against such judgments, penalties, fines or other amounts (or, if INDEMNITEE has sought Interval Protection in his or her capacity as a Representative, if there is a final judicial determination of willful misconduct in the matter giving rise to the Proceeding as to which he obtained Interval Protection), provided that in no event shall the Companies pay the amount of any

such judgment, penalty, fine or other amount except pursuant to Section 2, 4 (if applicable) or 6 hereof.

8. Trust Fund. In order to provide some assurance of payment to INDEMNITEE
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and all other directors and officers of the Companies who, prior to a Change in Control, have executed or will execute agreements substantially similar to this Agreement (together with this Agreement, collectively referred to herein as "Indemnification Agreements") of amounts to which they may become entitled hereunder (including, but not limited to, advances and Interval Protection), the Companies shall (a) have executed and delivered a trust agreement in substantially the form of Exhibit I hereto ("Indemnification Trust Agreement") with the bank named therein or with any other bank in the United States having a capital and surplus of at least $500 million as shown in its most recently published financial statements as trustee ("Trustee") and (b) have deposited not less than $5 million in cash to be held in trust by the Trustee pursuant to the terms and conditions of the Indemnification Trust Agreement ("Trust"). Thereafter, subject to the provisions of the Indemnification Trust Agreement, the Companies shall from time to time fund the Trust with such additional amounts in cash as may be necessary so that the total amount held in trust thereunder shall not, at any time, be less than the sum of $5 million plus such additional amounts as may from time to time be required by the Indemnification Trust Agreement, provided, however, that if such Trust shall have terminated in accordance with its

terms prior to the termination of this Agreement, the Companies shall fund a new trust for the benefit of the INDEMNITEES (as defined in the Indemnification Trust Agreement), established upon substantially the same terms as the Trust, and funded to the same extent as would have been required if the Trust had not terminated. As more fully set forth in the Indemnification Trust Agreement, if the Companies shall fail to pay INDEMNITEE any indemnification or advances or provide Interval Protection to which INDEMNITEE is or shall become entitled pursuant to this Agreement, INDEMNITEE shall have the right to payment thereof from the Trust, upon INDEMNITEE's submission to the Trustee of a notice requesting any such payment, enclosing reasonable evidence of the amount to be so paid, stating under oath that (i) INDEMNITEE has requested and is entitled to such payment pursuant to the provisions of this Agreement, (ii) the Companies have failed to provide such payment and (iii) INDEMNITEE has not received such payment pursuant to any directors and officers liability insurance policy maintained by the Companies, and including in such notice an undertaking to repay such amounts to the Trust if any of the statements in the foregoing clause (i), (ii) or (iii) are ultimately determined not to be true. Upon termination of the Trust pursuant to the provisions of Section 7 of the Indemnification Trust Agreement, any funds then remaining in the Trust, after the distributions provided for in the Indemnification Trust Agreement, shall (unless required for the funding of a new trust as aforesaid) revert to the Companies.

9. Enforcement.

(a) The Companies unconditionally and irrevocably agree that their execution of this Agreement shall also constitute a stipulation by which they shall be irrevocably bound in any court or arbitration in which a proceeding by INDEMNITEE for enforcement of his or her rights shall have been commenced, continued or appealed that their obligations set forth in this Agreement are unique and special, and that failure of the Companies to comply with the provisions of this Agreement will cause irreparable and irremediable injury to INDEMNITEE, for which a remedy at law will be inadequate. As a result, in addition to any other right or remedy he may have at law or in equity with respect to a violation of this Agreement, INDEMNITEE shall be entitled to injunctive or mandatory relief directing specific performance by the Companies of their obligations under this Agreement, including without limitation the Companies' obligations regarding the establishment, re-establishment and funding of one or more trusts in accordance with Section 8 hereof. The Companies further irrevocably stipulate and agree that (i) they shall not, except in good faith, raise any objections not specifically relating to the merits of INDEMNITEE's claim, (ii) if a determination was made or deemed to have been made pursuant to the provisions of Section 4 hereof that INDEMNITEE is entitled to indemnification, the Companies shall be bound by such

determination and shall be precluded from asserting that such determination has not been made or that the procedure by which such determination was made is not valid, binding and enforceable, and (iii) the Companies shall be bound, in any such proceeding, by all provisions of this Agreement (including, but not limited to, Sections 4(b) and 4(c) hereof).

(b) In the event that INDEMNITEE is subject to or intervenes in any legal action in which the validity or enforceability of this Agreement is at issue or institutes any legal action, for specific performance or otherwise, to enforce his or her rights under, or to recover damages for breach of, this Agreement, INDEMNITEE shall, within 30 days after written request to the Companies therefor (and submission of reasonable evidence of the amount thereof), and unless there is a specific judicial finding that INDEMNITEE's suit was frivolous, be indemnified by the Companies against all costs and expenses (including attorneys' fees and disbursements) incurred by him or her in connection therewith.

10. Duration of Agreement.

(a) This Agreement shall continue until and terminate upon the later of (i) the tenth anniversary after INDEMNITEE has ceased to occupy any of the positions or have any of the relationships described in Section 2(a) of this Agreement or (ii) (A) the final termination or resolution of all Proceedings

with respect to INDEMNITEE commenced during such 10 year period and (B) either (x) receipt by INDEMNITEE of the indemnification to which he or she is entitled hereunder with respect thereto or (y) a final adjudication or binding arbitration that INDEMNITEE is not entitled to any further indemnification with respect thereto, as the case may be, provided that (subject to the exception set forth below), in the event that (1) the Board of Directors of J. C. Penney Corporation, Inc., in its discretion, determines to submit the Indemnification Agreements for stockholder ratification at J. C. Penney Company's 1987 Annual Meeting of Stockholders and (2) the stockholders fail to ratify the Indemnification Agreements at said Annual Meeting, then this Agreement shall terminate as of the close of business on the date of the certification (by the inspectors of election for said Annual Meeting) of said vote; except that this Agreement shall not terminate on such date pursuant to the foregoing proviso with respect to claims which have arisen (whether or not asserted) against INDEMNITEE prior to the close of business on such date, but shall continue in full force and effect until the occurrence of either of the events set forth in the foregoing clauses (x) and (y) of this paragraph (a) with respect to such claims.

(b) This Agreement shall be binding upon the Companies and their successors and assigns and shall inure to the benefit of INDEMNITEE and his or her heirs, devisees, executors, administrators or other legal representatives.

11. Severability. If any provision or provisions of this Agreement or the Indemnification Trust Agreement shall be held to be invalid, illegal or unenforceable under any particular circumstances or for any reason whatsoever (a) the validity, legality and enforceability of the remaining provisions of this Agreement and the Indemnification Trust Agreement (including, without limitation, all other portions of any Section, paragraph or clause of this Agreement or the Indemnification Trust Agreement that contains any provision that has been found to be invalid, illegal or unenforceable, that are not themselves invalid, illegal or unenforceable), or the validity, legality or enforceability under any other circumstances shall not in any way be affected or impaired thereby and (b) to the fullest extent possible consistent with applicable law, the provisions of this Agreement and the Indemnification Trust Agreement (including, without limitation, all other portions of any Section, paragraph or clause of this Agreement or the Indemnification Trust Agreement that contains any such provision that has been found to be invalid, illegal or unenforceable, that are not themselves invalid, illegal or unenforceable) shall be deemed revised, and shall be construed so as to give effect to the intent manifested by this Agreement and the Indemnification Trust Agreement (including the provision held invalid, illegal or unenforceable).

12. Identical Counterparts. This Agreement may be executed in one or more counterparts, each of which shall for all purposes be

deemed to be an original but all of which together shall constitute one and the same Agreement. Only one such counterpart signed by the party against whom enforceability is sought needs to be produced to evidence the existence of this Agreement.

13. Headings. The headings of the paragraphs of this Agreement are inserted for convenience only and shall not be deemed to constitute part of this Agreement or to affect the construction thereof.

14. Modification and Waiver. No supplement, modification or amendment of this Agreement shall be binding unless executed in writing by all of the parties hereto. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provisions hereof (whether or not similar) nor shall such waiver constitute a continuing waiver.

15. Notification and Defense of Claim. INDEMNITEE agrees to promptly notify the Companies in writing upon being served with any summons, citation, subpoena, complaint, indictment, information or other document relating to any matter which may be subject to indemnification covered hereunder, whether civil, criminal or investigative; provided, however, that the failure of INDEMNITEE to give such notice to the Companies shall not adversely affect INDEMNITEE's rights under this Agreement except to the extent the Companies shall have been materially prejudiced as a direct result

of such failure. Nothing in this Agreement shall constitute a waiver of the Companies' right to seek participation at their own expense in any Proceeding which may give rise to indemnification hereunder.

16. Notices. All notices, requests, demands and other communications hereunder shall be in writing and shall be deemed to have been duly given if (i) delivered by hand and receipted for by the party to whom said notice or other communication shall have been directed or (ii) mailed by certified or registered mail with postage prepaid, on the third business day after the date on which it is so mailed, in either case:

(a) if to INDEMNITEE, at the address indicated on the signature page hereof,

(b) if to J. C. Penney Company, Inc.:

If Mailed:

J. C. Penney Company, Inc.
P.O. Box 10001
Dallas, Texas 75301-0005
Attn: General Counsel

If Delivered:

J. C. Penney Company, Inc.
6501 Legacy Drive, MS 005
Plano, Texas 75024-3698
Attn: General Counsel

(c) if to J. C. Penney Corporation, Inc.:

If Mailed:

J. C. Penney Company, Inc.
P.O. Box 10001
Dallas, Texas 75301-0005
Attn: General Counsel

If Delivered:

J. C. Penney Company, Inc.
6501 Legacy Drive, MS 005
Plano, Texas 75024-3698
Attn: General Counsel

or to such other address as may have been furnished to either party by the other party.

Governing Law. The parties hereto agree that this Agreement shall be
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governed by, and construed and enforced in accordance with, the laws of the State of Delaware.

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

ATTEST: J. C. PENNEY COMPANY, INC.

By:______________________________ By:______________________________
Name:____________________________ Name:____________________________
Title:____________________________ Title:____________________________

ATTEST: J. C. PENNEY CORPORATION, INC.

By:______________________________ By:______________________________
Name:____________________________ Name:____________________________
Title:____________________________ Title:____________________________

INDEMNITEE

By:___________________________________
Name:
Title:
Address:

Exhibit 10(ii)(ac)

J. C. PENNEY CORPORATION, INC.
1989 MANAGEMENT
INCENTIVE COMPENSATION PROGRAM

==

ADOPTED BY BOARD OF DIRECTORS
JANUARY 31, 1989
EFFECTIVE FEBRUARY 1, 1989
AS AMENDED THROUGH FEBRUARY 20, 2002
(NO STOCKHOLDER APPROVAL REQUIRED)

==

J. C. PENNEY CORPORATION, INC.
1989 Management
Incentive Compensation Program

1. Purpose of Program. The purpose of this 1989 Management Incentive Compensation Program ("Program") is to continue in effect a fundamental policy which has been an important factor in the growth and success of J. C. Penney Corporation, Inc., and its divisions and subsidiaries (collectively, the "Company"). That policy is to base a substantial part of the compensation of management employees ("associates") of the Company holding positions of responsibility upon the operating results of the Company which such associates help to create. Those associates will be paid reasonable fixed salaries, but because their aggregate yearly remuneration may be affected substantially by variations in the operating results of the Company, they will have a direct incentive to put forth their best efforts for the development and growth of the Company.

2. Structure of Program. The Program shall initially consist of separate incentive compensation plans ("plan" or "plans") for the following groups of associates: (1) general management, (2) merchandising, and (3) catalog. The Board of Directors of the Company ("Board of Directors" or "Board") may from time to time authorize additional plans to be included in the Program or the consolidation of plans that are in the Program.

The Program and all plans shall be administered by, or under the direction of, a committee ("Committee") of the Board of Directors consisting of not less than three Board members who are not, and who have not within the year prior to such service on the

Committee been, eligible to participate in any plan or the Program. The Committee shall have plenary authority to interpret the Program and the plans and to make all determinations specified in or permitted by the Program and the plans or deemed necessary or desirable for their administration or for the conduct of the Committee's business; all interpretations and determinations of the Committee may be made on an individual or group basis, and shall be final, conclusive, and binding on all interested parties; and the Committee may delegate its responsibilities under the Program and the plans to persons other than its members, subject to such terms and conditions as it shall determine.

3. Participants in Plans. Participants in a plan for any fiscal year shall be designated by the Committee. Such designation may be made and, may from time to time be changed, on an individual basis or by groups, according to position responsibility level, salary, or any other method of classification deemed appropriate by the committee, but only management associates (including those who are also directors, but excluding those who serve as directors only of J. C. Penney Company, Inc.) may be so designated by the Committee.

4. Determination of Bases of Participation of Participants. The basis on which each participant shall participate in a plan shall be determined by the Committee, and any bases so determined may be changed from time to time by such Committee.

The Committee may determine the basis on which each participant shall participate in a plan, on an individual basis or by groups, according to position responsibility level, salary, or any other method of classification deemed appropriate by the Committee. The Committee may specify that such determination will continue in effect until changed by it, in which event the Committee shall not be required to make a new determination for each fiscal year.

The Board of Directors shall determine the basis on which participants who are directors of J. C. Penney Company, Inc. shall participate in a plan, and from time to time may change such determination. The Board may specify that such determination shall continue in effect until changed by it, in which event the Board shall not be required to make a new determination for each fiscal year. Such initial determination and any such change shall be made only after recommendations of the Committee are considered.

5. Limit on Incentive Compensation. There are no limits on the total amount of incentive compensation payable with respect to the Program for any fiscal year.

6. Determination and Payments of Incentive Compensation. The method for determining incentive compensation payable with respect to any plan and the Program for any fiscal year shall be prescribed by the Committee, and may be changed from, time to time, and the Committee shall determine for each fiscal year the value of the incentive compensation unit under any plan included in the Program.

The amount of incentive compensation payable under the plans shall be computed in accordance with the determinations of the Committee, and shall be paid on the basis of such computation. The Committee shall adopt such rules and procedures as it shall deem necessary or desirable in order that the amounts paid under the Program be verified, and such verification be submitted to the Board for its approval. Such verified amounts, when approved by the Board shall be final, conclusive, and binding on all interested parties, including the Company and the plan participants.

The Board or the Committee may permit a participant to defer receipt of all or part of any payment under a plan, or the Board or the committee may determine to defer receipt, by all or some participants, of all or part of any such payment. Any such deferral shall be for such period and in accordance with such terms, provisions, and conditions as the Board or the Committee shall determine.

7. Termination and Amendment of Plans and Program. The Board of Directors shall have power to construe, interpret, administer, amend, modify, suspend, and terminate the Program or any plan established under the Program.

8. Effective Date. The effective date of the Program shall be February 1, 1989.

Exhibit 10(ii)(ad)

ECKERD CORPORATION

KEY MANAGEMENT BONUS PLAN

1. Purpose. The Key Management Bonus Plan (KMBP) is intended to focus the attention of plan participants on financial factors critical to Eckerd Corporation's (the "Company") success. Through a carefully tailored combination of company-wide, regional, district, departmental and personal goals, each individual participant is encouraged to concentrate effort in those areas which most affect the Company's bottom line. The KMBP rewards participants for their contribution to the achievement of the Company's established financial and operating goals.

The Company is committed to a "pay for performance" philosophy. Therefore, compensation programs are designed to reward achievement of financial results. The KMBP is a pivotal component of a manager's total compensation, which includes base pay and benefits. It represents a significant corporate investment in its participants as key players on the Company's management team.

2. Administration. The KMBP shall be administered by the Board of Directors of the Company. The Board may delegate the administration of the KMBP to the Executive Compensation and Stock Option Committee of the Board of Directors comprised of three or more members of the Board or such other committee as the Board may designate from time to time (the "Committee"). The Board of Directors or the Committee may, from time to time, establish such rules and regulations for carrying out the KMBP as they may deem necessary or desirable. The Board of Directors or the Committee shall decide all questions of fact arising in the application of the KMBP and shall interpret and construe the provisions of the KMBP and of

any other documents relating to it or a bonus award hereunder and any such decision, interpretation or construction shall be conclusive and binding upon all persons.

3. Effective Date Of Plan. The KMBP shall become effective as of February 1, 1999 upon approval by the Board of Directors.

4. Eligibility. The executive officers eligible to participate in the KMBP are established by the Board or the Committee. Other positions eligible to participate in the KMBP are established by the Board of Directors, the Committee, or the Company's Senior Management. The Committee decides the level of the participant's participation.

To be a "qualified participant" in the KMBP, an individual must be in a KMBP position before November 1st of the applicable fiscal year, remain in a KMBP position for at least 90 days, have a performance rating of Meeting Expectations or better for the applicable fiscal year, and be actively working for the Company on the last day of the bonus period. Associates with a performance rating of Improvement Needed or less for the bonus period or who were moved from a KMBP eligible position to a non-KMBP eligible position for performance reasons during the bonus period are not eligible to receive a bonus. If a participant holds a KMBP position for less than a full fiscal year, the participant's KMBP payment will be prorated according to the number of weeks the participant has served in a KMBP position during the applicable fiscal year. If a participant serves in more than one KMBP position in the course of the year, the bonus will be calculated for each position separately and prorated for the number of weeks in that position.

5. Bonus Period. The bonus period coincides with the Company's fiscal year.

6. Performance Measures. Eligible participants will receive a goal sheet each fiscal year showing their individual performance measures which may include sales, EBIT

(earnings before interest and taxes) and EVA (economic value added), among others. The performance measures may be reflected on one or more matrixes. The KMBP will generate a unit value based upon the percent or dollar difference between actual and planned results for each matrix, and performance against approved EVA targets. The unit values on the matrix range from $0.00 to $3.00. Performance at plan produces a unit value of $1.00. The unit value of each matrix represents a percentage of the total unit value. A sample unit value matrix is attached as Exhibit "A". The financial measure EVA is calculated as follows:

Total JCPenney EVA
- Total Operating Expenses
- Taxes

Net Operating Profit After Tax (NOPAT)
\- --------------------------------------
- Capital Charge

\- --------------------------------------
Economic Value Added (EVA)

An EVA improvement target will be established based on delivering to investors a competitive return on their capital. The target takes into consideration the demands of investors now owning or buying stock, and recognizes that performance must improve to deliver for them a competitive return. The EVA unit values will be determined by a formula that measures actual EVA dollar performance against the annual target. The formula to determine the unit value is shown as follows:

$$\text{Unit value} = 1 + \frac{\text{(variation from the target)}}{\text{range}}$$

The range equals two times the EVA improvement target. To determine the variation from target, subtract the EVA improvement target from the actual EVA improvement.

7. Bonus Calculation. The bonus is calculated by multiplying a participant's number of performance units by the unit value. The number of performance units is calculated by multiplying the eligible participant's base salary that was paid during the year by the

applicable percentage. The applicable percentage is based upon the participant's position level as shown below:

Eckerd Position Level (EPL)	Incentive Compensation Percent	Eckerd Position Level (EPL)	Incentive Compensation Percent
19	37.2	13	27.0
18	34.8	12	18.0
17	32.3	The following schedule will apply for new bonus participants effective July 30, 2000.	
16	29.6/27.0*	11	13.9
15	27.0	10	10.2
14	27.0	9	6.2

8. Bonus Payment. KMBP bonuses are paid in cash within 90 days after the end of the fiscal year. At the time of receipt of written notice of a participant's bonus award, each participant shall arrange with the Company for the payment of the amount of any taxes required to be collected or withheld as a result of the payment of the KMBP bonus.

9. Participants On Leave Of Absence. Qualified participants who go on a Company approved and documented medical or maternity leave of absence during the bonus period will be eligible for a prorated bonus with credit given for the first six weeks of the leave and with no credit given for the remaining amount of time on leave of absence. Qualified participants who go on any other Company approved leave of absence during the bonus period will be eligible for a prorated bonus with no credit given for the amount of time on leave of absence. This bonus will be paid only when the participant returns to work directly from such a leave. If an eligible participant goes on an approved leave of absence after the end of the bonus period but before the bonus is paid, the participant

shall receive the full amount of bonus due. The payment will be made within 90 days after the end of the fiscal year.

10. Termination Of Employment.

a. Voluntary Terminations. A qualified participant who voluntarily terminates employment with the Company before the end of the bonus period forfeits all rights to any payment under the KMBP plan. Participants who have informed the Company of their decision to leave the Company must be physically on the job on the last day of the bonus period to receive payment for that period. Participants who have notified the Company of their desire to terminate employment and who choose to take vacation prior to the end of bonus period will not be deemed to have completed the bonus period and will not be eligible for payout under the KMBP Plan. Participants who voluntarily terminate employment after the end of the bonus period but before the bonus is paid are eligible to receive the bonus payment for that period.

b. Involuntary Terminations. A qualified participant who is involuntarily terminated before the bonus is paid for the applicable bonus period forfeits all rights to any payment under the KMBP.

11. Changes To Bonus Plan. The KMBP represents compensation in addition to normal salary for participants qualified to participate. The Company reserves the right to amend the KMBP, including the right to make changes in the KMBP's provisions, payouts, and eligibility, and also reserves the right to discontinue the KMBP at any time.

Unit Value Matrix for Eckerd Drugstores

<TABLE>
<CAPTION>

<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
21%	.00	.05	.10	.15	.20	.25	.31	.38	.44	.50	.56	.88	1.04
20%	.00	.05	.10	.15	.20	.25	.31	.38	.44	.50	.56	.88	1.04
19%	.00	.05	.10	.15	.20	.25	.31	.38	.44	.50	.56	.88	1.04
18%	.00	.05	.10	.15	.20	.25	.31	.38	.44	.50	.56	.88	1.04
17%	.00	.05	.10	.15	.20	.25	.31	.38	.44	.50	.56	.88	1.04
16%	.00	.05	.10	.15	.20	.25	.31	.38	.44	.50	.56	.88	1.04
15%	.00	.05	.10	.15	.20	.25	.31	.38	.44	.50	.56	.88	1.04
14%	.00	.05	.10	.15	.20	.25	.31	.38	.44	.50	.56	.88	1.04
13%	.00	.05	.10	.15	.20	.25	.31	.38	.44	.50	.56	.88	1.04
12%	.00	.05	.10	.15	.20	.25	.31	.38	.44	.50	.56	.88	1.04
11%	.00	.05	.10	.15	.20	.25	.31	.38	.44	.50	.56	.88	1.04
10%	.00	.05	.10	.15	.20	.25	.31	.38	.44	.50	.56	.88	1.04
9%	.00	.05	.10	.15	.20	.25	.31	.38	.44	.50	.56	.88	1.04
8%	.00	.05	.10	.15	.20	.25	.31	.38	.44	.50	.56	.88	1.04
7%	.00	.05	.10	.15	.20	.25	.31	.38	.44	.50	.56	.88	1.04
6%	.00	.05	.10	.15	.20	.25	.31	.38	.44	.50	.56	.88	1.04
5%	.00	.05	.10	.15	.20	.25	.31	.38	.44	.50	.56	.88	.94
4%	.00	.00	.05	.10	.15	.20	.26	.33	.39	.45	.51	.78	.84
3%	.00	.00	.00	.05	.10	.15	.21	.28	.34	.40	.46	.68	.74

2%	.00	.00	.00	.00	.05	.10	.16	.23	.29	.35	.41	.58	.64
1%	.00	.00	.00	.00	.00	.05	.11	.18	.24	.30	.36	.48	.54
MEET	.00	.00	.00	.00	.00	.00	.06	.13	.19	.25	.31	.38	.44
-1%	.00	.00	.00	.00	.00	.00	.00	.06	.13	.19	.25	.31	.38
-2%	.00	.00	.00	.00	.00	.00	.00	.00	.06	.13	.19	.25	.31
-3%	.00	.00	.00	.00	.00	.00	.00	.00	.00	.06	.13	.19	.25
-4%	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.06	.13	.19
-5%	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.06	.13
-6%	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.06
-7%	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
-8%	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
-9%	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
-10%	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
-11%	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
-12%	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
-13%	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
-14%	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
-15%	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
-16%	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
-17%	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
-18%	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
-19%	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
-20%	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
-21%	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
	-21%	-20%	-19%	-18%	-17%	-16%	-15%	-14%	-13%	-12%	-11%	-10%	-9%

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21%	1.20	1.36	1.53	1.69	1.75	1.81	1.88	1.94	3.00	3.00	3.00	3.00	3.00	3.00	3.00
20%	1.20	1.36	1.53	1.69	1.75	1.81	1.88	1.94	3.00	3.00	3.00	3.00	3.00	3.00	3.00
19%	1.20	1.36	1.53	1.69	1.75	1.81	1.88	1.94	2.90	3.00	3.00	3.00	3.00	3.00	3.00
18%	1.20	1.36	1.53	1.69	1.75	1.81	1.88	1.94	2.80	2.95	3.00	3.00	3.00	3.00	3.00
17%	1.20	1.36	1.53	1.69	1.75	1.81	1.88	1.94	2.70	2.85	3.00	3.00	3.00	3.00	3.00
16%	1.20	1.36	1.53	1.69	1.75	1.81	1.88	1.94	2.60	2.75	2.90	3.00	3.00	3.00	3.00
15%	1.20	1.36	1.53	1.69	1.75	1.81	1.88	1.94	2.50	2.65	2.80	2.95	3.00	3.00	3.00
14%	1.20	1.36	1.53	1.69	1.75	1.81	1.88	1.94	2.40	2.55	2.70	2.85	3.00	3.00	3.00
13%	1.20	1.36	1.53	1.69	1.75	1.81	1.88	1.94	2.30	2.45	2.60	2.75	2.90	3.00	3.00
12%	1.20	1.36	1.53	1.69	1.75	1.81	1.88	1.94	2.20	2.35	2.50	2.65	2.80	2.95	3.00
11%	1.20	1.36	1.53	1.69	1.75	1.81	1.88	1.94	2.10	2.25	2.40	2.55	2.70	2.85	3.00
10%	1.20	1.36	1.53	1.69	1.75	1.81	1.88	1.94	2.00	2.15	2.30	2.45	2.60	2.75	2.90
9%	1.20	1.36	1.53	1.59	1.65	1.71	1.78	1.84	1.90	2.05	2.20	2.35	2.50	2.65	2.80

8%	1.20	1.36	1.43	1.49	1.55	1.61	1.68	1.74	1.80	1.95	2.10	2.25	2.40	2.55	2.70
7%	1.20	1.26	1.33	1.39	1.45	1.51	1.58	1.64	1.70	1.85	2.00	2.15	2.30	2.45	2.60
6%	1.10	1.16	1.23	1.29	1.35	1.41	1.48	1.54	1.60	1.75	1.90	2.05	2.20	2.35	2.50
5%	1.00	1.06	1.13	1.19	1.25	1.31	1.38	1.44	1.50	1.65	1.80	1.95	2.10	2.25	2.35
4%	.90	.96	1.03	1.09	1.15	1.21	1.28	1.34	1.40	1.55	1.70	1.85	2.00	2.10	2.20
3%	.80	.86	.93	.99	1.05	1.11	1.18	1.24	1.30	1.45	1.60	1.75	1.85	1.95	2.05
2%	.70	.76	.83	.89	.95	1.01	1.08	1.14	1.20	1.35	1.50	1.60	1.70	1.80	1.90
1%	.60	.66	.73	.79	.85	.91	.98	1.04	1.10	1.25	1.35	1.45	1.55	1.65	1.75
MEET	.50	.56	.63	.69	.75	.81	.88	.94	1.00	1.10	1.20	1.30	1.40	1.50	1.60
-1%	.44	.50	.56	.63	.69	.75	.81	.88	.94	1.04	1.14	1.24	1.34	1.44	1.54
-2%	.38	.44	.50	.56	.63	.69	.75	.81	.88	.98	1.08	1.18	1.28	1.38	1.48
-3%	.31	.38	.44	.50	.56	.63	.69	.75	.81	.91	1.01	1.11	1.21	1.31	1.41
-4%	.25	.31	.38	.44	.50	.56	.63	.69	.75	.85	.95	1.05	1.15	1.25	1.35
-5%	.19	.25	.31	.38	.44	.50	.56	.63	.69	.79	.89	.99	1.09	1.19	1.29
-6%	.13	.19	.25	.31	.38	.44	.50	.56	.63	.73	.83	.93	1.03	1.13	1.23
-7%	.06	.13	.19	.25	.31	.38	.44	.50	.56	.66	.76	.86	.96	1.06	1.16
-8%	.00	.06	.13	.19	.25	.31	.38	.44	.50	.60	.70	.80	.90	1.00	1.10
-9%	.00	.00	.06	.13	.19	.25	.31	.38	.44	.54	.64	.74	.84	.94	1.04
- -10%	.00	.00	.00	.06	.13	.19	.25	.31	.38	.48	.58	.68	.78	.88	.88
- -11%	.00	.00	.00	.00	.06	.13	.19	.25	.31	.36	.41	.46	.51	.56	.56
- -12%	.00	.00	.00	.00	.00	.06	.13	.19	.25	.30	.35	.40	.45	.50	.50
- -13%	.00	.00	.00	.00	.00	.00	.06	.13	.19	.24	.29	.34	.39	.44	.44
- -14%	.00	.00	.00	.00	.00	.00	.00	.06	.13	.18	.23	.28	.33	.38	.38
- -15%	.00	.00	.00	.00	.00	.00	.00	.00	.06	.11	.16	.21	.26	.31	.31
- -16%	.00	.00	.00	.00	.00	.00	.00	.00	.00	.05	.10	.15	.20	.25	.25
- -17%	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.05	.10	.15	.20	.20
- -18%	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.05	.10	.15	.15
- -19%	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.05	.10	.10
- -20%	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.05	.05
- -21%	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
	-8%	-7%	-6%	-5%	-4%	-3%	-2%	-1%	MEET	1%	2%	3%	4%	5%	6%

<CAPTION>

<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
21%	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
20%	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
19%	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
18%	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
17%	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
16%	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00

15%	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
14%	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
13%	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
12%	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
11%	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
10%	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
9%	2.95	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
8%	2.85	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
7%	2.75	2.85	2.95	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
6%	2.60	2.70	2.80	2.90	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
5%	2.45	2.55	2.65	2.75	2.85	2.95	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
4%	2.30	2.40	2.50	2.60	2.70	2.80	2.90	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
3%	2.15	2.25	2.35	2.45	2.55	2.65	2.75	2.85	2.95	3.00	3.00	3.00	3.00	3.00	3.00
2%	2.00	2.10	2.20	2.30	2.40	2.50	2.60	2.70	2.80	2.90	3.00	3.00	3.00	3.00	3.00
1%	1.85	1.95	2.05	2.15	2.25	2.35	2.45	2.55	2.65	2.75	2.85	2.95	3.00	3.00	3.00
MEET	1.70	1.80	1.90	2.00	2.10	2.20	2.30	2.40	2.50	2.60	2.70	2.80	2.90	3.00	3.00
-1%	1.64	1.74	1.84	1.94	1.94	1.94	1.94	1.94	1.94	1.94	1.94	1.94	1.94	1.94	1.94
-2%	1.58	1.68	1.78	1.88	1.88	1.88	1.88	1.88	1.88	1.88	1.88	1.88	1.88	1.88	1.88
-3%	1.51	1.61	1.71	1.81	1.81	1.81	1.81	1.81	1.81	1.81	1.81	1.81	1.81	1.81	1.81
-4%	1.45	1.55	1.65	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
-5%	1.39	1.49	1.59	1.69	1.69	1.69	1.69	1.69	1.69	1.69	1.69	1.69	1.69	1.69	1.69
-6%	1.33	1.43	1.53	1.53	1.53	1.53	1.53	1.53	1.53	1.53	1.53	1.53	1.53	1.53	1.53
-7%	1.26	1.36	1.36	1.36	1.36	1.36	1.36	1.36	1.36	1.36	1.36	1.36	1.36	1.36	1.36
-8%	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20
-9%	1.04	1.04	1.04	1.04	1.04	1.04	1.04	1.04	1.04	1.04	1.04	1.04	1.04	1.04	1.04
-10%	.88	.88	.88	.88	.88	.88	.88	.88	.88	.88	.88	.88	.88	.88	.88
-11%	.56	.56	.56	.56	.56	.56	.56	.56	.56	.56	.56	.56	.56	.56	.56
-12%	.50	.50	.50	.50	.50	.50	.50	.50	.50	.50	.50	.50	.50	.50	.50
-13%	.44	.44	.44	.44	.44	.44	.44	.44	.44	.44	.44	.44	.44	.44	.44
-14%	.38	.38	.38	.38	.38	.38	.38	.38	.38	.38	.38	.38	.38	.38	.38
-15%	.31	.31	.31	.31	.31	.31	.31	.31	.31	.31	.31	.31	.31	.31	.31
-16%	.25	.25	.25	.25	.25	.25	.25	.25	.25	.25	.25	.25	.25	.25	.25
-17%	.20	.20	.20	.20	.20	.20	.20	.20	.20	.20	.20	.20	.20	.20	.20
-18%	.15	.15	.15	.15	.15	.15	.15	.15	.15	.15	.15	.15	.15	.15	.15
-19%	.10	.10	.10	.10	.10	.10	.10	.10	.10	.10	.10	.10	.10	.10	.10
-20%	.05	.05	.05	.05	.05	.05	.05	.05	.05	.05	.05	.05	.05	.05	.05
-21%	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
	7%	8%	9%	10%	11%	12%	13%	14%	15%	16%	17%	18%	19%	20%	21%

</TABLE>

PROFIT $ % OVER/UNDER PLAN

Exhibit 12(a)

J. C. Penney Company, Inc.
and Consolidated Subsidiaries

Computation of Ratios of Available Income to Combined Fixed Charges
and Preferred Stock Dividend Requirement

<TABLE>
<CAPTION>

($ Millions)	52 Weeks Ended 01/26/02	52 Weeks Ended 01/27/01	52 Weeks Ended 01/29/00	52 Weeks Ended 01/30/99	53 Weeks Ended 01/31/98
<S>	<C>	<C>	<C>	<C>	<C>
Income/(loss) from continuing operations (before income taxes, before capitalized interest, but after preferred stock dividend)	$ 172	$ (920)	$ 237	$ 674	$ 647
Fixed charges					
Interest (including capitalized interest) on:					
Operating leases	305	320	272	225	180
Short-term debt	-	13	137	106	121
Long-term debt	426	464	538	557	527
Capital leases	5	3	2	4	7
Other, net	8	2	(5)	1	(5)
Total fixed charges	744	802	944	893	830
Preferred stock dividend, before taxes	29	33	36	37	40
Combined fixed charges and preferred stock dividend requirement	773	835	980	930	870
Total available income/(loss)	$ 945	$ (85)	$ 1,217	$ 1,604	$ 1,517
Ratio of available income to combined fixed charges and preferred stock dividend requirement	1.2	-0.1*	1.2	1.7	1.7

</TABLE>

The interest cost of the LESOP notes guaranteed by the Company is not included in fixed charges above. The LESOP notes were repaid in July 1998.

* Income from continuing operations (before income taxes and capitalized interest, but after preferred stock dividend) was not sufficient to cover combined fixed charges and preferred stock by $920 million.

Exhibit 12(b)

J. C. Penney Company, Inc.
and Consolidated Subsidiaries

Computation of Ratios of Available Income to Fixed Charges

<TABLE>
<CAPTION>

($ Millions)	52 Weeks Ended 01/26/02	52 Weeks Ended 01/27/01	52 Weeks Ended 01/29/00	52 Weeks Ended 01/30/99	53 Weeks Ended 01/31/98
<S>	<C>	<C>	<C>	<C>	<C>
Income/(loss) from continuing operations (before income taxes and capitalized interest)	$ 201	$ (887)	$ 273	$ 711	$ 687
Fixed charges					
Interest (including capitalized interest) on:					
Operating leases	305	320	272	225	180
Short-term debt	-	13	137	106	121
Long-term debt	426	464	538	557	527
Capital leases	5	3	2	4	7
Other, net	8	2	(5)	1	(5)
Total fixed charges	744	802	944	893	830
Total available income/(loss)	$ 945	$ (85)	$ 1,217	$ 1,604	$ 1,517
Ratio of available income to combined fixed charges	1.3	-0.1*	1.3	1.8	1.8

</TABLE>

The interest cost of the LESOP notes guaranteed by the Company is not included in fixed charges above. The LESOP notes were repaid in July 1998.

* Income from continuing operations (before income taxes and capitalized interest) was not sufficient to cover fixed charges by $887 million.

Exhibit 13

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the accompanying consolidated financial statements and notes thereto and the five year financial summary. Effective January 27, 2002, J. C. Penney Company, Inc. changed its corporate structure to a holding company format. As part of this structure, J. C. Penney Company, Inc. changed its name to J. C. Penney Corporation, Inc. (JCP) and became a wholly owned subsidiary of a newly formed affiliated holding company (Holding Company). The new holding company assumed the name J. C. Penney Company, Inc. All outstanding shares of common and preferred stock were automatically converted into the identical number of and type of shares in the new holding company. Stockholders' ownership interests in the business did not change as a result of the new structure. Shares of the Company remain publicly traded under the same symbol (JCP) on the New York Stock Exchange. 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 Holding Company and its consolidated subsidiaries, including JCP are collectively referred to in this Annual Report as "Company" or "JCPenney," unless indicated otherwise. See Note 1 for further discussion.

CRITICAL ACCOUNTING POLICIES. The application of accounting policies necessarily involves judgment and, in certain instances, the use of estimates and assumptions. Different amounts could be reported under different conditions or using different assumptions. Management believes that the accounting policies that are the most critical to understanding and evaluating the Company's reported results relate to inventory valuation under the retail method of accounting; revenue recognition; valuation of long-lived and intangible assets, including goodwill; estimation of valuation allowances and reserves, specifically related to closed stores, insurance, income taxes and litigation; and pension accounting.

Inventory valuation under the retail method:
- --
DEPARTMENT STORES AND CATALOG - Substantially all merchandise inventory is valued at the lower of cost or market using the last-in, first-out (LIFO) retail method. Under the retail method, inventory is segregated into groupings of merchandise having similar characteristics and is stated at its current retail selling value. Inventory retail values are converted to a cost basis by applying specific average cost factors for each grouping of merchandise. Cost factors represent the average cost-to-retail ratio for each merchandise group based on the fiscal year purchase activity for each store location. Accordingly, a significant assumption under retail method accounting is that the inventory in each group of merchandise is similar In terms of its cost-to-retail relationship and has similar gross margin and turnover rates. Management monitors the content of merchandise in these groupings to ensure distortions do not occur that would have a material effect on inventory valuation. The retail method inherently requires management judgment and certain estimates that may significantly impact the ending inventory valuation at cost as well as gross margins. Among others, two of the most significant are permanent markdowns used to clear unproductive or slow-moving inventory and shrinkage.

Permanent markdowns designated for clearance activity are recorded at the point of decision, when the utility of inventory has diminished, versus the point of sale. Factors considered in the determination of permanent markdowns include: current and anticipated demand, customer preferences, age of the merchandise and fashion trends. When a decision is made to permanently mark down merchandise, the resulting gross margin reduction is recognized in the period the markdown is recorded.

Shrinkage is estimated as a percentage of sales for the period from the last inventory date to the end of the fiscal year. Such estimates are based on experience and the shrinkage results from the last physical inventory. The two main factors that affect shrinkage are the accuracy of merchandise recordkeeping in an environment that entails a large volume of individually small transactions and the level of possible internal and external theft. While it is not possible to quantify the impact from each cause of shrinkage, the Company has loss prevention programs and policies in place that minimize shrinkage losses. Physical inventories are taken at least annually for all department stores and fulfillment centers, on a staggered basis throughout the year, and inventory records are adjusted accordingly. The shrinkage rate from the most recent physical inventory, in combination with historical experience, is used as the standard for the shrinkage accrual going forward.

ECKERD - Pharmaceutical merchandise, as well as general merchandise stored in warehouses, is valued under the cost method of accounting and is stated at the lower of LIFO cost or market. For the remainder of the inventory representing general (front-end) merchandise in Eckerd drugstore locations, inventory valuation is determined under a modified retail method. Under this method. Inventory is valued based on the cost-to-retail relationship of physical inventories (descriptive counts) taken in selected stores. Descriptive counts gather detailed front-end merchandise pricing information at both current retail and cost for homogeneous groupings of merchandise. The calculated cost-to-retail relationship is then used to cost physical inventories completed in Eckerd Drugstores throughout the year. In order to reflect updated cost-to-retail ratios based on current pricing data, descriptive counts are conducted twice a year. The selection of stores and merchandise groupings for descriptive counts is carefully reviewed by management to ensure a fair representation across all stores.

Similar to Department Stores and Catalog, inventory values at Eckerd are also affected by actual shrinkage at the time of inventory, as well as estimated shrinkage from the inventory date to the end of the fiscal year. Eckerd conducts physical inventories at least annually in each of its stores and at least semiannually in warehouse locations. Shrinkage is calculated as a percentage of sales at each inventory date and the estimated shrinkage accrual rate between physical inventories is based on actual experience. Eckerd's shrinkage results in 2001 stabilized and returned to more normal historical rates following the higher shrinkage levels experienced in the prior three years, 1998 to 2000, during which significant integration activities occurred to consolidate several drugstore formats.

Revenue recognition: The Company recognizes revenue from merchandise and service
- -------------------
sales in its retail stores at the point of sale or service. Revenues for catalog and internet sales are recognized at the time of shipment. Commissions earned on sales generated by licensed departments are included as a component of retail sales. For catalog orders shipped to department stores for pickup by customers, the Company changed its policy in January 2002 to charge the customer and record the sale when the order is shipped. Previously, revenue was recorded when the customer picked up and paid for the merchandise. This change did not have a material impact on retail sales for 2001.

Sales returns are not significant for retail stores due to the relatively short time frame in which returns are typically made and the visibility of the merchandise to the customer. For catalog, however, the return period is longer and return rates higher due to the nature of that business. The Company records an allowance for estimated returns, based on the returns policy in place and historical experience. Accordingly, the majority of the allowance relates to estimated catalog returns. While such returns have historically been within our expectations and the recorded allowance has been adequate, management cannot guarantee that the Company will continue to experience the same return rates.

Valuation of long-lived and intangible assets, including goodwill:
- --
Management evaluates the recoverability of long-lived assets, identified intangibles and goodwill, as well as enterprise goodwill, whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The evaluation is done at the lowest level of cash flows, which is typically at the individual store level. Assumptions are made with respect to estimated cash flows expected to be generated by the related assets based on updated projections. If the evaluation indicates that the carrying amount of the asset may not be recoverable, the potential impairment is measured based on a projected discounted cash flow method using a discount rate that is considered to be commensurate with the risk inherent in the Company's current business model. If different assumptions were made or different market conditions were present, any estimated potential impairment amounts could be different.

In 2002, Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets," became effective. See discussion of the estimated impact on future results of the Company under the new accounting pronouncements section on page 13.

Reserves and valuation allowances: Based on an overall analysis of store
- ---------------------------------
operations, management periodically decides to close underperforming stores. Reserves are established for the present value of obligations under leases (PVOL), net of estimated sublease income, severance and other exit costs. Two key assumptions in calculating the reserve include the time frame expected to terminate lease agreements and estimations of other related exit costs. If different assumptions were used regarding the timing and potential termination costs, the resulting reserves could vary from recorded amounts. Reserves are reviewed periodically and adjusted when necessary.

The Company records a provision for workers' compensation and general liability risk based on actuarial estimates of reported, and incurred but not reported, claims based on historical experience and current data. Total estimated claim amounts are discounted using a risk-free rate.

Income taxes are estimated for each jurisdiction in which the Company operates. This involves assessing the current tax exposure together with temporary differences resulting from differing treatment of items, such as goodwill, for tax and accounting purposes. Any resulting deferred tax assets are evaluated for recoverability based on estimated future taxable income. To the extent that recovery is deemed not likely, a valuation allowance is recorded.

The Company is involved in a number of legal proceedings and governmental inquiries associated with employment, environmental and pharmaceutical matters. A reserve has been established, based on management's best estimates of the Company's potential liability in these matters. This estimate has been developed in consultation with in-house and outside counsel and is based upon a combination of litigation and settlement strategies.

Pension accounting: In accounting for pension costs, the expected return on
- ------------------

assets is calculated based on the expected long-term rate of return and the market-related value of plan assets. Accounting rules allow companies to use either fair value or a calculated value to determine the market-related value of assets that recognizes changes in fair value in a systematic and rational manner over not more than five years. Many U.S. public companies, including many of the Company's competitors, use a calculated value and, therefore, recognize variances from expected results on a delayed basis. The Company uses fair value to determine the market-related value of plan assets, which is used in calculating the expected return on assets and gain/loss amortization components of net periodic pension expense. As a result, any increases or decreases in fair value of plan assets above or below the expected return are fully taken into consideration in the determination of net periodic pension expense in the period in which they occur. If the Company were to use a calculated value to determine the market-related value of plan assets and recognize variances from expected results on a delayed basis, the amount of pension expense or income recognized could vary significantly from that recorded under the Company's current methodology. The Company's employee benefit plans, including the pension plan, are further discussed on page 13 and in Note 13.

The following discussion and analysis, consistent with all other financial data throughout this Annual Report, focuses on the results of operations and financial condition from the Company's continuing operations.

DISCONTINUED OPERATIONS. In June 2001, JCP closed on the sale of its J. C. Penney Direct Marketing Services, Inc. (DMS) assets, including its J C. Penney Life Insurance subsidiaries and related businesses to a U.S. subsidiary of AEGON, N.V. (AEGON). JCP received cash at closing of approximately $1.3 billion ($1.1 billion after tax).

DMS was reflected as a discontinued operation in the 2000 Annual Report with an estimated net loss on the sale of $296 million. Upon completion of the transaction, the loss was adjusted to $312 million. The additional net loss of $16 million was recorded in the second quarter of 2001 as a loss on the sale of discontinued operations due to the fact that the transaction closed earlier than anticipated. The Company's financial statements, footnotes and other information provided in this Annual Report reflect DMS as a discontinued operation for all periods presented.

Concurrent with the closing, JCP entered into a 15-year strategic licensing and marketing services arrangement with AECON designed to offer an expanded range of financial and membership services products to JCPenney customers over the term of this arrangement the Company will receive fee income related to sales of certain financial products and membership services. Such amounts will be recognized as earned in the Company's financial statements.

Consolidated Results of Operations

<TABLE>
<CAPTION>

($ in millions except EPS)	2001	2000	1999
<S>	<C>	<C>	<C>
SEGMENT OPERATING PROFIT/(LOSS)			
Department Stores and Catalog	$ 548	$ 254	$ 670
Eckerd Drugstores	208	(76)	183
Total segments	756	178	853
Other unallocated	(25)	(27)	13
Net interest expense (and credit operations in 1999)	(386)	(427)	(294)
Acquisition amortization	(121)	(122)	(125)
Restructuring and other charges, net	(21)	(488)	(169)
Income/(loss) from continuing operations before income taxes	203	(886)	278
Income taxes	89	(318)	104
INCOME/(LOSS) FROM CONTINUING OPERATIONS	$ 114	$ (568)	$ 174
EARNINGS/(LOSS) PER SHARE FROM CONTINUING OPERATIONS	$ 0.32	$ (2.29)	$ 0.54

</TABLE>

Income from continuing operations in 2001 totaled $114 million, or $0.32 per share, compared with a loss from continuing operations in 2000 of $568 million, or $2.29 per share, and income from continuing operations of $174 million, or $0.54 per share in 1999. Income from continuing operations includes certain charges or credits considered to be non-comparable. Non-comparable items are defined and discussed on the pages that follow. Before the effects of non-comparable items, earnings/(loss) per share (EPS) would have been $0.39, $(O.44) and $1.36 for 2001, 2000 and 1999, respectively. All references to EPS are on a diluted basis.

<TABLE>
<CAPTION>

	2001	2000	1999

($ in millions except IPS)	Pre-tax $	EPS	Pretax $	EPS	Pretax $	EPS
<S>	<C>	<C>	<C>	<C>	<C>	<C>
INCOME/(LOSS) FROM CONTINUING OPERATIONS BEFORE THE EFFECTS OF NON-COMPARABLE ITEMS	$ 239	$ 0.39	$ (135)	$ (0.44)	$ 586	$ 1.36
RESTRUCTURING AND OTHER CHARGES, NET						
JCPenney store closings	(16)		(206)		--	
Eckerd drugstore closings	--		(111)		--	
Asset impairments	--		(91)		(240)	
Contract cancellations	--		(84)		--	
Headcount reductions	(3)		(35)		--	
Gain on the sale of assets	--		13		55	
Adjustments to prior period restructuring reserves and other	(2)		26		16	
TOTAL RESTRUCTURING AND OTHER CHARGES, NET	(21)	(0.04)	(488)	(1.19)	(169)	(0.48)
Other non-comparable items						
Reported as Department Stores and Catalog gross margin						
Department stores Incremental markdowns	--		(92)		--	
SAB 101 revenue recognition adjustment	--		--		(20)	
Reported as Eckerd gross margin						
Inventory adjustments	--		(104)		(74)	
Reported as Eckerd SG&A						
Pension curtailment gain	11		--		--	
Information technology transition costs	(5)		--		--	
Integration and other costs	--		(12)		(45)	
Reported as Other Unallocated						
Centralized merchandising process (ACT) costs	(36)		(55)		--	
Real estate gains	57		--		--	
Asset impairments and PVOL	(42)		--		--	
TOTAL OTHER NON-COMPARABLE ITEMS	(15)	(0.03)	(263)	(0.66)	(139)	(0.34)
TOTAL NON-COMPARABLE ITEMS	(36)	(0.07)	(751)	(1.85)	(308)	(0.82)
INCOME/(LOSS) FROM CONTINUING OPERATIONS	$ 203	$ 0.32	$ (886)	$ (2.29)	$ 278	$ 0.54

</TABLE>

Income from continuing operations before the effects of non-comparable items Improved significantly in 2001 compared to 2000. Overall improvements were realized in both Department Stores and Catalog and Eckerd Drugstores. Comparable store sales increased 3.3% for department stores and 7.8% for Eckerd drugstores. Operating profits also improved due to higher gross margin ratios and expense management initiatives, reflective of strategies implemented to turn around the businesses. Income from continuing operations in 2000 before the effects of non-comparable items was significantly lower than 1999 due to a decline in the operating performance of Department Stores and Catalog as well as Eckerd Drugstores. In 2000, sales In Department Stores and Catalog declined 2.9% from 1999, 2.4% on a comparable store basis, and were accompanied by a significant decline in gross margin. Lower gross margin and increased selling, general and administrative (SG&A) expenses in 2000 resulted in a significant decline in Eckerd operating profit.

NON-COMPARABLE ITEMS. The Company considers non-comparable items to be significant charges or credits that are infrequently occurring transactions, not reflective of normal operating performance. Examples of non-comparable items would include significant real estate transactions that are not part of the Company's core business, costs related to centralizing merchandising and other processes and costs related to significant acquisitions. The financial impact of these transactions make comparisons of ongoing operating results difficult and therefore require discussion to clarify results and trends in the Company's operations for multiple years. Restructuring and other charges, net, are discussed in more detail in Note 14.

FISCAL 2001. The Company's results were impacted by the effects of non-comparable items totaling $36 million, net, as follows:

RESTRUCTURING and other charges, net ($21 million)

... JCPenney store closings ($16 million) - The 2000 store closing plan was modified in 2001 to include two additional units. A charge of $8 million was recorded for asset impairments, PVOL and severance. In addition, a charge of $7 million was recorded to write off the residual value of seven stores included in the 2000 plan. Finally, $1 million was recorded for the severance benefits paid to the associates from seven stores, which were part of the 2000 plan but not announced until 2001

... Headcount reductions ($3 million) - Severance benefits were paid to certain members of senior management as part of the change to new merchandising and catalog organizations.

... Adjustments to prior period restructuring reserves and other ($2 million) - Actual costs were more than originally anticipated.

OTHER NON-COMPARABLE ITEMS ($15 million)

Costs of $36 million were associated with ACT (Accelerating Change Together), a fundamental rebuilding of the department store process and organization, creating a centralized buying organization. ACT has required process and organizational restructuring throughout the Company's corporate and field structure for department stores. Total incremental ACT costs over the two-year transition period (2000-2001) totaled $91 million. Including $20 million of capitalized hardware and software costs, total ACT expenditures were $111 million. Beginning in 2002, ongoing ACT costs will be included in Department Stores and Catalog segment operating results. Real estate gains of $57 million were recorded primarily on the sale of two retail partnership interests. Asset impairments and PVOL totaling $42 million were recorded for catalog outlet stores planned to close in 2002, five underperforming department stores, outside stockrooms that have been closed as the Company transitions to a centralized merchandising logistics and distribution network, third-party fulfillment operations that the Company is winding down and an impairment on an office facility. Non-comparable items included in Eckerd SG&A were an $11 million gain for pension curtailment and $5 million in transition costs related to the in-sourcing of information technology.

FISCAL 2000. The Company's results were impacted by the effects of non-comparable items totaling $751 million, net, as follows:
RESTRUCTURING AND OTHER CHARGES, NET ($488 million)
... JCPenney store closings ($206 million) - During fiscal 2000, 92 underperforming stores were approved for closing. These stores generated sales of approximately $950 million and incurred operating losses of $28 million in fiscal 1999. The Company's estimate for transfer sales to nearby JCPenney stores was approximately $160 million. By the end of 2000,48 stores were closed, and the remainder closed by the end of 2001. The charge was recorded for fixed asset impairments ($113 million), PVOL ($77 million) and employee severance costs ($16 million).
... Eckerd drugstore closings ($111 million) - 279 drugstores were approved in 2000 for closing under the Eckerd store closing plan. These stores generated sales and operating losses of approximately $650 million and $30 million, respectively, in fiscal 1999. Of these stores, 274 were closed by the end of 2000, and the remainder were closed by the end of second quarter 2001. Charges were comprised of PVOL ($90 million), employee severance costs ($4 million) and other exit costs ($17 million).
... Asset impairments ($91 million) - Asset impairments included $64 million for 13 department stores that remained open due to restrictive operating covenants, $14 million for Eckerd assets related to relocated stores and $13 million for non-strategic business investments, including the Eckerd web site.
... Contract cancellations ($84 million) - Cancellations include termination fees and asset impairments associated with Eckerd's contract with its information technology service provider ($72 million) and a buyout fee for the remaining lease obligations ($12 million) related to a cancelled JCP hardware contract.
... Headcount reductions ($35 million) - Approximately 995 home office and field positions for both Department Stores and Catalog and Eckerd Drugstores were eliminated.
... Gain on the sale of assets ($13 million) - A gain was recognized on the sale of notes receivable that had been issued in 1997 in connection with the divestiture of certain drugstores pursuant to an agreement with the Federal Trade Commission.
... Adjustments to prior period restructuring reserves and other (net credit of $26 million) - Actual costs were less than previously estimated.
OTHER NON-COMPARABLE ITEMS ($263 million)
... Department store incremental markdowns ($92 million) - The charge represented incremental markdowns recorded in cost of goods sold on discontinued merchandise from the decision to narrow the merchandise assortment as part of ACT.
... Eckerd inventory adjustments ($104 million) - The charge represented incremental markdowns recorded in cost of goods sold on discontinued merchandise in order to reposition the merchandise mix ($43 million) and to liquidate merchandise under the store closing plan ($61 million).
... Incremental Eckerd other costs ($12 million) - Costs were incurred for store closing activities in connection with the store closing plan.
... Centralized merchandising process costs ($55 million] - These costs were associated with ACT

FISCAL 1999. The Company's results were impacted by non-comparable items totaling $308 million, net, as follows:
RESTRUCTURING AND OTHER CHARGES, NET ($169 million)
... JCPenney store asset impairments ($130 million) - The charge represented the excess of the carrying value of the assets, including intangible assets, over fair value, related to 10 stores, the majority of which were acquired in 1995 in the Washington, D.C., market.
... Eckerd asset impairments ($110 million) - The charge represented the excess of the carrying value of the assets, including intangible assets, over fair value related primarily to underperforming stores that were closed in fiscal 2000 and 2001.
... Gain on the sale of assets ($55 million) - In December 1999, JCP sold its proprietary credit card accounts and receivables to General Electric Capital Corporation and its subsidiaries (GE Capital). For more information about this transaction, see Note 4.
... Adjustments to prior year restructuring reserves (net credit of $16 million) - Actual costs were less than previously estimated.
OTHER NON-COMPARABLE ITEMS ($139 million)
... Eckerd inventory adjustments ($74 million) - As a result of the integration of the Company's several drugstore formats, a cost of goods sold charge of $74 million was recorded to reflect the dif-

ference between the estimated value of book inventories and physical Inventories.

... Incremental Eckerd integration and other costs ($45 million) - Incremental costs were incurred to upgrade the communications system that linked all drugstores with Eckerd's home office. In addition, related to the integration of the drugstores, certain allowances for the collectibility of accounts receivable and insurance reserves were adjusted.

... Revenue recognition ($20 million) - In response to the guidance provided by SEC Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition in Financial Statements," the Company changed certain revenue recognition policies affecting stores and catalog. A $20 million charge to cost of goods sold was recorded for the cumulative effects of the changes.

DEPARTMENT STORES AND CATALOG OPERATING RESULTS

($ in millions)	2001	2000	1999
Retail sales, net	$ 18,157	$ 18,758	$ 19,316
FIFO gross margin	6,093	5,978	6,536
LIFO credit/(charge)	9	(14)	9
LIFO gross margin	6,102	5,964	6,545
SG&A expenses	(5,554)	(5,710)	(5,875)
Segment operating profit	$ 548	$ 254	$ 670
Gross margin impact from non-comparable items	$ --	$ 92	$ 20
Sales percent increase/(decrease):			
Department stores	1.5%	(2.9)%	(1.3)%
Comparable stores/(1)/	3.3%	(2.4)%	(l.l)%
Catalog	(19.7)%	(2.7)%	1.9%
Ratios as a percent of sales:			
FIFO gross margin	33.6%	31.9%	33.8%
LIFO gross margin	33.6%	31.8%	33.9%
SG&A expenses	30.6%	30.4%	30.4%
Segment operating profit	3.0%	1.4%	3.5%
Ratios as a percent of sales, before the effects of non-comparable items:			
FIFO gross margin	33.6%	32.4%	33.9%
LIFO gross margin	33.6%	32.3%	34 0%
SG&A expenses	30.6%	30.4%	30.4%
Segment operating profit	3.0%	1.8%	3.6%

/(1)/Comparable store sales include the sales of stores after having been opened for 12 consecutive fiscal months. Stores become comparable on the first day of the 13th fiscal month.

To provide more meaningful comparisons, the following discusses the operating results of Department Stores and Catalog before the effect on gross margins of non-comparable items, as discussed previously.

2001 COMPARED WITH 2000. Department Stores and Catalog segment operating profit was $548 million in 2001, a significant improvement compared with $346 million in 2000. The increase from last year is primarily from improved gross margins in department stores and good inventory management and expense control in the catalog operation.

Total department store sales of $14.8 billion increased 1.5% for the year, while sales in comparable department stores increased 3.3%. The largest sales increases were in the Home Division, led by the expanded housewares department and followed by bed and bath. Women's sportwear, women's outerwear, juniors, men's sportswear and intimate apparel also had strong sales improvements. Sales gains were achieved by strong customer response to more current styles and colors of merchandise and better in-store visual presentation, combined with more focused marketing programs (principally in domestic stores), all as a result of the transition to a centralized merchandising process. Total department stores include sales in the Company's international stores of $498 million in 2001, and $547 million in 2000, a decrease of 9.0%. The decrease is primarily the result of the fluctuation of the Brazilian currency translated into U.S. dollars. Catalog sales were $3.4 billion in 2001 compared to $4.2 billion in 2000, a decline of approximately 20% consistent with the Company's projections. Sales declined with the elimination of several specialty catalogs and promotional marketing programs that had generated unprofitable sales. Internet sales, which are included with Catalog, increased to $324 million from $294 million in 2000.

LIFO gross margin for 2001 improved 130 basis points as a percent of sales compared with last year. Margin improvement was the result of better merchandise assortments, improved inventory productivity and benefits derived from centralized merchandising. The transition to a centralized merchandising organization has allowed buyers to better negotiate costs and set appropriate pricing levels. System enhancements have provided better inventory data and more visibility into merchandise selling patterns, allowing for improved decision-making with respect to the timing of markdowns. The margin improvement was slightly offset by higher shrinkage results in the current year due to process changes made in connection with the move to a centralized merchandising process. Accordingly, the Company increased the shrinkage accrual to take these changes into consideration. Gross margin included a LIFO credit of $9 million in 2001 and a LIFO charge of $14 million in 2000. The LIFO credit in 2001 resulted primarily from higher initial markup. The LIFO charge In 2000 resulted from declines in higher cost inventory added in prior years.

SG&A expenses improved $l56 million or 2.7% compared to last year, and were essentially flat as a percent of sales. Contributing to this improvement were lower catalog book and marketing costs, lower order fulfillment and telemarketing costs and a shift from development to maintenance of JCPenney.com. Other contributing factors to the improvement were decreases to salaries and other employee benefit plan expenses. See further discussion on page 13 and in Note 13. This improvement was reduced by an additional discretionary contribution to the Company's savings plan of approximately $48 million based on improved current year earnings and to reflect a Company match to the savings plan at more competitive levels. This additional contribution, along with the standard match, was funded in early 2002 with 2.9 million

shares of Company common stock. A discretionary match was not made in the prior year.

2000 COMPARED WITH 1999. Segment operating profit for Department Stores and Catalog was $346 million in 2000 compared with $690 million in 1999. The decline for the year was attributable to decreases in both sales and gross margin. Gross margin declined as a result of higher markdowns required to clear seasonal merchandise and promotional activity intended to stimulate sales.

Total department store sales of $14.6 billion declined by 2.9% for the year, while sales in comparable department stores declined by 2.4%. The largest sales declines were in athletic apparel and young men's sportswear. Total department stores include sales in the Company's international stores which totaled $547 million in 2000, compared to $432 million in 1999, an increase of 26.6%. This increase was primarily the result of the addition of 14 Renner stores in Brazil. Catalog sales were $4.2 billion in 2000 and $4.3 billion in 1999.

ECKERD DRUGSTORES OPERATING RESULTS

<TABLE>
<CAPTION>

($ in millions)	2001	2000	1999
<S>	<C>	<C>	<C>
Retail sales, net	$ 13,847	$ 13,088	$ 12,427
FIFO gross margin	3,160	2,906	2,965
LIF0 charge	(47)	(55)	(52)
LIFO gross margin	3,113	2,851	2,913
SG&A expenses	(2,905)	(2,927)	(2,730)
Segment operating profit/(loss)	$ 208	$ (76)	$ 183
Gross margin impact from non-comparable items	$ --	$ 104	$ 74
SG&A impact from non-comparable items	(6)	12	45
Sales percent increase:			
Total Sales	5.8%	5.3%	20.4%
Comparable stores/(1)/	7.8%	8.5%	10.7%
Ratios as a percent of sales:			
FIFO gross margin	22.8%	22.2%	23.9%
LIFO gross margin	22.5%	21.8%	23.5%
SG&A expenses	21.0%	22.4%	22.0%
Segment operating profit/(loss)	1.5%	(0.6)%	1.5%
Ratios as a percent of sales, before the effects of non-comparable items:			
FIFO gross margin	22.8%	23.0%	24.5%
LIFO gross margin	22.5%	22.6%	24.0%
SG&A expenses	21.0%	22.3%	21.6%
Segment operating profit	1.5%	0.3%	2.4%

</TABLE>

/(1)/ Comparable store sales include the sales of stores after having been opened for 12 consecutive fiscal months. Stores become comparable on the first day of the 13th fiscal month. Comparable store sales include sales of relocated stores.

Internet merchandise sales increased to $294 million from $102 million in 1999.

LIFO gross margin as a percent of sales declined 170 basis points compared with 1999 levels. The margin decline was due primarily to higher levels of promotional and clearance markdowns, particularly in the fourth quarter. In addition, gross margin was impacted by the implementation of centralized pricing decisions for aged and seasonal merchandise under ACT. Gross margin included a LIFO charge of $14 million in 2000 and a LIFO credit of $9 million in 1999. The LIFO charge in 2000 resulted from declines in higher cost inventory added in prior years. The LIFO credit for 1999 resulted from a combination of flat to declining retail prices as measured by the Company's internally developed inflation index.

SG&A expenses decreased by $165 million. The dollar improvement was primarily a result of cost savings initiatives, including outsourcing and process redesign, implemented over the last several years.

To provide more meaningful comparisons, the following discussion reviews Eckerd Drugstores operating results before the previously discussed non-comparable effects on gross margin and SG&A.

2001 COMPARED WITH 2000. Segment operating profit for Eckerd Drugstores improved 120 basis points to $202 million in 2001 compared to $40 million in 2000. The increase in segment operating profit resulted from comparable store sales increases, with higher general merchandise sales, combined with improved SG&A expenses. Sales reflect increases in transaction volumes and unit sales from reduced pricing, improved marketing and store reconfiguration initiatives. Comparable sales growth for 2001 was led by an 11.7% increase in pharmacy sales, which accounted for 67% of total drugstore sales. Pharmacy sales increased in the managed care segment, which accounted for 91% of pharmacy sales, up from 89% in 2000. Comparable general merchandise sales increased 1.0% for the year, despite reducing prices on 5,000 items by approximately 6% and implementing temporary low pricing on 1,000 items. The strongest general merchandise categories were cosmetics and skin care, baby and hygiene products, household products, candy, and food and snacks, including beverages. The score reconfiguration program, which represents a new store layout, was rolled out to approximately 700 drugstores in 2001. The program included new and relocated stores, as well as stores in the newer freestanding locations. At the end of 2001, approximately 25% of all drugstores were operating in the new format.

LIFO gross margin, reflecting a better product mix, higher generic dispensing rates in pharmacy and better control over shrinkage, was essentially flat as a percent of sales despite implementation of more competitive pricing. Gross margin included LIFO charges of $47 million in 2001 and $55 million in 2000. LIFO charges in both years primarily reflect price inflation on prescription drugs.

SG&A expenses improved by 130 basis points as a percentage of sales, resulting primarily from an emphasis on cost management and the leverage of increased sales. Information technology costs were

lowered by bringing the function back in-house. Net advertising costs were also lower. Additionally, pension costs were lower because Eckerd ceased participation in the JCPenney pension plan, as discussed under benefit plans on page 13.

2000 COMPARED WITH 1999. Segment operating profit for Eckerd Drugstores was $40 million in 2000 compared to $302 million in 1999. The decline in operating profit was attributable to weak general merchandise sales, coupled with lower gross margin and increased SG&A expenses. Sales for 2000 increased 5.3% over 1999. Comparable store sales increased 8.5%. Comparable store sales growth for 2000 was led by a 14% increase in pharmacy sales, which accounted for 64% of total drugstore sales. Sales for 2000 benefited from the relocation of 136 stores to more convenient freestanding locations.

LIFO gross margin, as a percent of sales, declined 140 basis points. The decline was principally related to a higher proportion of lower-margin managed care and mail-order pharmacy sales and a reduced level of higher-margin general merchandise sales. Gross margin included LIFO charges of $55 million in 2000 and $52 million in 1999.

SG&A expenses as a percent of sales increased 70 basis points. Costs associated with opening new and relocated drugstores negatively impacted expenses in 2000 and 1999.

NET INTEREST EXPENSE AND CREDIT OPERATIONS

($ in millions)	2001	2000	1999
Finance charge revenue,			
net of operating expenses	$ --	$ --	$ (313)
Interest expense, net	386	427	607
Net Interest expense and credit operations	$ 386	$ 427	$ 294

Net interest expense totaled $386 million in 2001 compared with $427 million in 2000. In 1999, net interest expense and credit operations totaled $294 million and included JCP's proprietary credit card operation through December 6, 1999, when the operation was sold to GE Capital. Interest expense declined in 2001 as a result of improved cash balances and the declines in average debt outstanding. The issuance of convertible debt in October 2001 did not have a material impact on interest charges for the year. Debt retirements totaled $250 million and $805 million in 2001 and 2000, respectively. The improvement in interest expense from 1999 to 2000 was primarily due to the reduction of short-term debt from the proceeds of the sale of proprietary credit card receivables. In addition, borrowing levels have declined since 1999 due to reductions in inventory levels.

INCOME TAXES. The overall effective tax rate was 43.7%, (35.9%) and 37.4% for 2001, 2000 and 1999, respectively. In 2001, the tax rate increased due to a higher percentage of non-deductible permanent book/tax differences, principally goodwill, relative to income than in prior years. In 2000, due to the loss from continuing operations, certain tax planning benefits were not utilized, resulting in a lower tax benefit. Losses that resulted from these benefits have been carried forward to future years. Based on the short time periods for carry-forwards in certain states, valuation allowances of $85 million and $60 million in 2001 and 2000, respectively, have been established for those benefits not expected to be realized. In 1999, the tax rate was favorably impacted by tax planning strategies that significantly reduced state and local income tax rates.

FINANCIAL CONDITION

LIQUIDITY AND CAPITAL RESOURCES. Cash flow from operating activities was $1.0 billion in 2001 compared with $1.5 billion in 2000 and $1.2 billion in 1999. Improved earnings have reversed negative net income trends in recent years and positively impacted 2001 cash flow. Lower inventory levels also had a positive impact on cash flow over the last two years. However, cash generated by decreasing inventory levels, net of trade payables, declined in 2001 as department stores and Eckerd inventories leveled off during the year.

The Company's liquidity continued to strengthen during 2001 with $2.8 billion in cash and short-term investments as of January 26, 2002. The strong liquidity position is the result of the following: (1) improved profitability of operations, which generated approximately $200 million of free cash flow (operating cash flow after capital expenditures and dividends); (2) the sale of DMS which netted $1.1 billion in after-tax proceeds; (3) the issuance of $650 million aggregate principal amount of JCP's 5% convertible subordinated notes, which generated $630 million in cash proceeds, net of transaction fees; and (4) the establishment of the Eckerd managed care receivable securitization program, which generated $200 million of proceeds.

The Company's strong liquidity position, as reflected by $2.8 billion of cash and short-term investments at year-end 2001, represents 46% of the outstanding long-term debt. Management believes that the current cash position is adequate to cover debt maturities over the next several years. Cash flow generated from Company operations, combined with the cash and short-term investment position, will be adequate to cover debt maturities, capital expenditures and working capital requirements for the upcoming year. As a result of the Company's strong liquidity position, it is not anticipated that any external financing will be required in 2002 to fund the Company's operating cash needs. However, the Company manages its financial position on a multi-year basis and may refinance upcoming debt maturities and access the capital markets on an opportunistic basis to maintain and enhance financial flexibility. As discussed under benefit plans on page 13, the Company does not expect any additional funding of the pension plan to be required in 2002.

To further enhance liquidity, the Company maintains a fully committed $1.5 billion revolving credit facility and a separate $630 million committed credit facility to support the Company's import letters of credit program. Although separate facilities, the two lines are linked to provide an aggregate of $1.5 billion in total credit capacity. At year-end, there were no borrowings under the $1.5 billion credit facility and approximately $200 million of letters of credit outstanding. The letter of credit facility matures on August 17, 2002, and the revolving credit facility matures on November 21, 2002. The Company expects renewal and extension of these facilities to take place in the first half of 2002. The Company may be required to pledge a portion of Company

assets as collateral for the new credit facility.

In 2001, the Company demonstrated access to the capital markets through the successful issuance of $650 million of subordinated convertible debentures and the securitization of certain Eckerd managed care receivables, which generated cash proceeds of $200 million. Future access to capital markets will depend upon the operational performance of the Company, as well as prevailing market conditions.

The Company's liquidity is enhanced by the fact that the current debt portfolio and material lease agreements do not contain any provisions that could trigger early payments, acceleration or collateral support in the event of adverse changes in the Company's financial condition.

The Company has two debenture series that contain put options. In each case, the investor may elect to have the debenture redeemed at par prior to its stated maturity date. The 6.9% Notes due 2026, principal amount $200 million, may be redeemed on August 15, 2003. The 7.4% Debentures due 2037, principal amount $400 million, may be redeemed on April 1, 2005. For planning purposes, and in the table below, the Company assumes the debenture holders will exercise their repayment option.

OFF-BALANCE SHEET ITEMS. The Company has operating leases which management takes into consideration in evaluating overall liquidity. See discussion on page 34.

In May 2001, Eckerd formed a special purpose entity, ECR Receivables, Inc. (ECR), to complete a securitization of Eckerd managed care receivables. ECR is a wholly owned subsidiary of Eckerd. Under this arrangement, Eckerd sold managed care receivables to ECR, which then sold an undivided interest in the pool of receivables to an unrelated entity. ECR uses the cash collections of the receivables to purchase additional receivables from Eckerd under prearranged terms. JCP received $200 million in May 2001 from the sale and recorded an immaterial loss on the transaction. This transaction qualified as a sale under the provisions of SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities."

JCP, through a wholly owned subsidiary, has investments in 15 partnerships that own regional mall properties, seven as general partner and eight as a limited partner. The Company believes that its potential exposure to risk is greater in partnerships that it participates in as a general partner rather than as a limited partner. Mortgages on the seven general partnerships total approximately $330 million; however, the estimated market value of the underlying properties is approximately $533 million. These mortgages are non-recourse to the Company, so any financial exposure is minimal. In addition, the subsidiary has made guarantees totaling approximately $48 million related to investments in four real estate investment trusts (REITs). The estimated market value of the underlying properties significantly exceeds the outstanding mortgage loans, and the loan guarantee to market value ratio is less than 3% as of January 26, 2002. In the event of default, creditors would recover first from the proceeds of the sale of the properties, then from guarantors if the proceeds were less than the guaranteed portion of the debt. As a result, management does not believe that any potential financial exposure related to these guarantees would have a material impact on the Company's financial position or results of operations.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS. Aggregated information about the Company's contractual obligations and commitments as of January 26, 2002, are presented in the following tables. (This information is also disclosed in other parts of this Annual Report.)

<TABLE>
<CAPTION>

Payments Due By period

($ in millions)	Total	2002	2003	2004	2005	2OO6	After 5 years
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Contractual cash obligations:							
Long-term debt	$ 6,051	$ 920	$ 550	$ 300	$ 618	$ 171	$ 3,492
Short-term debt	15	15	--	--	--	--	--
Capital lease obligations and other	56	22	13	12	9	--	--
Operating leases	6,936	669	614	563	512	464	4,114
Total contractual cash obligations	$ 13,058	$ 1,626	$ 1,177	$ 875	$ 1,139	$ 635	$ 7,606

Amount of Commitment expiration per period

($ in millions)	Total amounts committed	2002	2003	2004	2005	2006	After 5 years
Other commercial commitments:							
Import letters of credit	$ 200	$ 200	$ --	$ --	$ --	$ --	$ --
Standby letters of credit(1)	151	151	--	--	--	--	--
Surety bonds"(2)	134	134	--	--	--	--	--
Guarantees"(3)	101	7	6	30	5	14	39
Total commercial commitments	$ 586	$ 492	$ 6	$ 30	$ 5	$ 14	$ 39

</TABLE>

/(1)/ standby letters of credit are issued as a collateral to a third-party administrator for self-insured workers' compensation and general liability claims.
/(2)/ Surety bonds are primarily for previously incurred and expensed obligations related to workers' compensation and general liability claims.
/(3)/ Includes guarantees of $48 million on real estate partnership loans and $53 million on certain leases related to stores that were sold in 1998.

FOREIGN CURRENCY RISK. The Company operates 54 Renner department stores in Brazil and six JCPenney department stores in Mexico. Sales for 2001, 2000 and 1999 were $316 million, $353 million and $218 million, respectively. For the year ended January 26, 2002, the other comprehensive loss on foreign currency translation was approximately $27 million. Due to the relatively small size of foreign operations and management's intent to continue to operate and reinvest in this operation, management believes that its exposure to market risk associated with foreign currencies does not have a material impact on its financial condition or results of operations.

MERCHANDISE INVENTORY. Total LIFO inventory was $4,930 million in 2001 compared with $5,269 million in 2000. FIFO merchandise inventory for Department Stores and Catalog was $2,977 million at the end of 2001, a decrease of 9.4% on an overall basis and an increase of 5% for comparable stores. The overall decline was primarily the result of significant declines in catalog as inventory was managed consistently with the lower sales volume. Eckerd FIFO merchandise inventory was $2,330 million at the end of 2001, an increase of 0.4% from the prior year.

CAPITAL EXPENDITURES. Capital expenditures, including capitalized software costs and intangible assets, such as Eckerd prescription file acquisitions, during the past three years are as follows:

($ in millions)	2001	2000	1999
Department Stores and Catalog	$ 332	$ 361	$ 346
Eckerd Drugstores	299	317	376
Total capital expenditures	$ 631	$ 678	$ 722

Capital expenditures for 2001 were above plan as the Company further accelerated investments in Eckerd's reconfigured drugstores and began to obtain sites for approximately 130 new drugstores to be opened in 2002. As the Company's performance improves, management intends to increase capital spending to more competitive levels to accelerate growth at Eckerd and improve the infrastructure in department stores.

For 2002, management expects capital expenditures to be in the range of $800 million to $900 million, equally divided between the Department Stores and Catalog and Eckerd segments. Anticipated capital expenditures for Department Stores and Catalog will focus on system enhancements to improve the allocation of merchandise to individual stores and the rollout of the new merchandise distribution network that is an integral part of centralization. For the Eckerd segment, management currently intends to convert, relocate or open an additional 800 stores in 2002.

ACQUISITIONS. JCP has completed several acquisitions in recent years. In all cases, the purchase price was allocated to assets acquired and liabilities assumed based on estimated fair values. The excess of the purchase price over the fair value of assets acquired, including intangible assets, and liabilities assumed is accounted for as goodwill and has generally been amortized over 40 years. However, the Company will cease amortizing goodwill upon adoption of SFAS No. 142 at the beginning of fiscal 2002. See discussion under the new accounting pronouncements section on page 13. All acquisitions have been accounted for under the purchase method. Accordingly, their results of operations are included in the Company's statements of operations as of the date of the acquisition.

On March 1, 1999, JCP completed the acquisition of Genovese Drug Stores, Inc. (Genovese), a 141-drugstore chain with locations in New York, New Jersey and Connecticut. The acquisition was accomplished through the exchange of approximately 9.6 million shares of JCPenney common stock for the outstanding shares of Genovese, and the conversion of outstanding Genovese stock options into approximately 550,000 common stock options of the Company. The total value of the transaction, including the assumption of $60 million of debt, was $414 million, of which $263 million represented goodwill. See Note 4 for further discussion.

DEBT TO CAPITAL

	2001	2000	1999
Debt to capital	34.9%	43.2%	42.7%
Debt to capital, including leases	53.5%	56.8%	54.5%

The Company currently and historically manages its financial position by factoring in all on- and off-balance sheet debt, including operating leases. Management believes this is the most realistic depiction of financial leverage. The debt-to-capital percent is also shown as calculated in the more traditional manner of on-balance sheet debt for comparison purposes.

Total debt, net of cash and short-term investments, but including the present value of operating leases and securitized receivables, was $7,038 million, $8,245 million and $8,670 million at the end of 2001, 2000 and 1999. During 2001, $250 million principal amount of notes matured and was paid. JCP issued $650 million of 5% convertible subordinated notes in private placements in October 2001. During 2000, JCP retired $805 million of long-term debt through scheduled maturities of $625 million and the call of $180 million of 9.45% notes due 2002.

In December 1999, JCP received $3.2 billion in proceeds from the sale of its proprietary credit card accounts receivable. Proceeds from the sale were used to pay down short-term debt and the balance was invested in short-term investments, pending the maturity of long-term debt issues. In conjunction with the sale, GE Capital also assumed debt totaling $729 million, including $79 million of off-balance sheet debt. During 1999, JCP retired $225 million of long-term debt at the normal maturity date and redeemed $199 million of Eckerd Notes due 2004.

DIVIDENDS. JCP paid quarterly dividends of $0.125 in 2001. The dividend rate had been reduced in the final quarter of 1999 from $0.545 to $0.2875 and for the third quarter of 2000 from $0.2875 to $0.125. The Board of Directors considered the overall performance of the Company's businesses and the need to reinvest earnings in those

businesses in the determination to reduce the quarterly dividend rate.

INFLATION AND CHANGING PRICES. Inflation and changing prices have not had a significant impact on the Company in recent years due to low levels of inflation.

BENEFIT PLANS. In 2001, JCP approved changes to its retiree medical and dental plans that will reduce and cap Company contributions. In accordance with SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," these changes were accounted for as a negative plan amendment. Accordingly, the effects of reducing the benefit obligation will be amortized over the remaining years of service to eligibility of the active plan participants. The Company began recognizing the costs under the amended plans in the third quarter of 2001. These changes reduced SG&A expenses in 2001 by approximately $11 million. The annualized savings from these changes are estimated to be approximately $27 million per year.

Also in 2001, JCP amended its pension plan to freeze benefits and participation for substantially all drugstore associates effective July 31, 2001. In its place, Eckerd adopted a new 401(k) savings plan for all eligible drugstore associates effective January 1, 2002. This new plan is designed to be more competitive in the drugstore industry and to help attract and retain qualified personnel, especially pharmacists. It is currently projected that total retirement costs for Eckerd will increase slightly under this new plan. The change in the pension plan has been accounted for as a curtailment gain in accordance with SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits." The reduction in the projected benefit obligation of approximately $11 million has been recognized in the Eckerd segment results as a reduction of SG&A expenses. This amount is reflected as a non-comparable item.

As a result of declines in the equity markets in 2001, the Company expects a significant negative swing in net pension costs which may negatively impact EPS up to $0.25 per share in fiscal 2002 as compared to 2001. Because the Company's pension plan is in an overfunded position, even with the market declines in 2001, the Company does not expect any additional funding to be required in 2002.

NEW ACCOUNTING PRONOUNCEMENTS. In October 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-lived Assets." This statement establishes a single accounting model for the impairment or disposal of long-lived assets and new standards for reporting discontinued operations. SFAS No. 144 supersedes SFAS No. 121, "Accounting for the Impairment of Long-lived Assets and for Long-lived Assets to be Disposed Of" and Accounting Principles Board (APB) No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." SFAS No. 144 retains the provision of SFAS No. 121 for long-lived assets held for use to evaluate recoverability based on undiscounted cash flows. SFAS No. 144 is effective in fiscal years beginning after December 15, 2001. The Company does not expect the implementation of this Statement to have a material effect on its financial position or results of operations.

In July 2001, the FASB issued SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets," effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill and intangible assets with indefinite useful lives will no longer be amortized but will be subject to annual impairment tests using a fair-value based approach, as set forth in the new standard. Other intangible assets with estimable useful lives will continue to be amortized over their useful lives.

The Company will apply these new rules beginning in the first quarter of fiscal 2002. The Company has approximately $2,643 million of unamortized goodwill, including the Eckerd trade name, as of January 26, 2002. Under SFAS No. 142, the Eckerd trade name qualifies as an intangible asset with an indefinite useful life; therefore, amortization will cease upon adoption of the new rules. Application of the non-amortization provisions of the Statement is expected to increase per share earnings approximately $O.25 in 2002. In the first quarter of 2002, the Company will perform the transitional impairment test on the January 26, 2002 balance of the Eckerd trade name, as required by SFAS No. 142. During the first half of 2002, the Company will perform the first step of the required impairment test on the January 26, 2002 balance of goodwill. Based on preliminary analyses of enterprise values for identified reporting units, management does not expect to record an impairment charge. However, there can be no assurance that at the time the review is completed an impairment charge will not be recorded.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION. This Annual Report, including the Chairman's letter, may contain forward-looking statements made within the meaning of the Private Securities Litigation Reform Act of 1995. As such, such statements involve risks and uncertainties that could cause actual results to differ materially from predicted results. The Company's forward-looking statements are based on assumptions about many important factors, including competitive conditions in the retail industry; changes in consumer confidence and spending in the United States; direct-to-customer strategy and other initiatives; anticipated cash flow; general economic conditions, such as higher interest rates and unemployment; and normal business uncertainty. In addition, the Company typically earns a disproportionate share of its operating income in the fourth quarter due to holiday buying patterns, which are difficult to forecast with certainty. While the Company believes that its assumptions are reasonable, it cautions that it is impossible to predict the impact of such factors that could cause actual results to differ materially from predicted results. The Company intends the forward-looking statements in this Annual Report to speak only at the time of its release and does not undertake to update or revise these projections as more information becomes available.

COMPANY STATEMENT ON FINANCIAL INFORMATION

The Company is responsible for the information presented in this Annual Report. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and present fairly, in all material respects, the Company's results of operations, financial position and cash flows. Certain amounts included in the consolidated financial statements are estimated based on currently available information and judgment as to the outcome of future conditions and circumstances. Financial information elsewhere in this Annual Report is consistent with that in the consolidated financial statements.

The Company's system of internal controls is supported by written policies and procedures and supplemented by a staff of internal auditors. This system is designed to provide reasonable assurance, at suitable costs, that assets are safeguarded and that transactions are executed in accordance with appropriate authorization and are recorded and reported properly. The system is continually reviewed, evaluated and where appropriate, modified to accommodate current conditions. Emphasis is placed on the careful selection, training and development of professional finance and internal audit managers.

An organizational alignment that is premised upon appropriate delegation of authority and division of responsibility is fundamental to this system. Communication programs are aimed at assuring that established policies and procedures are disseminated and understood throughout the Company.

The consolidated financial statements have been audited by independent auditors whose report appears below. Their audit was conducted in accordance with auditing standards generally accepted in the United States of America, which include the consideration of the Company's internal controls to the extent necessary to form an independent opinion on the consolidated financial statements prepared by management.

The Audit Committee of the Board of Directors is composed solely of directors who are not officers or employees of the Company. The Audit Committee's responsibilities include recommending to the Board for stockholder approval the independent auditors for the annual audit of the Company's consolidated financial statements. The Committee also reviews the independent auditors' audit strategy and plan, scope, fees, audit results, performance, independence and non-audit services and related fees; internal audit reports on the adequacy of internal controls; the Company's ethics program; status of significant legal matters; the scope of the internal auditors' plans and budget and results of their audits and the effectiveness of the Company's program for correcting audit findings. The independent auditors and Company personnel, including internal auditors, meet periodically with the Audit Committee to discuss auditing and financial reporting matters.

/s/ Robert B. Cavanaugh
Robert B. Cavanaugh
Executive Vice President and Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of J. C. Penney Company, Inc. and Subsidiaries as of January 26, 2002 and January 27, 2001, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the years in the three-year period ended January 26, 2002. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of J. C. Penney Company, Inc. and Subsidiaries as of January 26, 2002 and January 27, 2001, and the results of their operations and their cash flows for each of the years in the three-year period ended January 26, 2002, in conformity with accounting principles generally accepted in the United States of America.

/s/ KPMG LLP
Dallas, Texas

February 21, 2002

CONSOLIDATED STATEMENTS OF OPERATIONS J. C. PENNEY COMPANY, INC. AND SUBSIDIARIES

<TABLE>
<CAPTION>

($ in millions, except per share data)	2001	2000	1999
<S>	<C>	<C>	<C>
RETAIL SALES, NET	$ 32,004	$ 31,846	$ 31,743
COSTS AND EXPENSES			
Cost of goods sold	22,789	23,031	22,286
Selling, general and administrative expenses	8,459	8,637	8,604
Other unallocated	25	27	(13)
Net interest expense and credit operations	386	427	294
Acquisition amortization	121	122	125
Restructuring and other charges, net	21	488	169
Total costs and expenses	31,801	32,732	31,465
Income/(loss) from continuing operations before income taxes	203	(886)	278
Income taxes	89	(318)	104
INCOME/(LOSS) FROM CONTINUING OPERATIONS	114	(568)	174
Income from discontinued operations (net of income tax of $0, $90 and $91)	--	159	162
Loss on sale of discontinued operations (net of income taxes of $(6), $200 and $0)	(16)	(296)	--
NET INCOME/(LOSS)	$ 98	$ (705)	$ 336
EARNINGS/(LOSS) PER COMMON SHARE:			
Income/(loss) from continuing operations	$ 114	$ (568)	$ 174
Less: preferred stock dividends, net of tax	(29)	(33)	(36)
Earnings/(loss) from continuing operations available to common stockholders/(1)/	85	(601)	138
Income from discontinued operations, net of tax	--	159	162
(Loss) on sale of discontinued operations	(16)	(296)	--
Net income/(loss) available to common stockholder/(2)/	$ 69	$ (738)	$ 300
Average common shares outstanding (basic shares)	263	262	259
Dilutive effect of stock options and restricted stock units	4	--	--
Average shares used for diluted EPS/(3)/	267	262	259
BASIC AND DILUTED EPS:			
Continuing operations	$ 0.32	$ (2.29)	$ 0.54
Discontinued operations	--	0.61	0.62
(Loss) on sale of discontinued operations	(0.06)	(1.13)	--
Net income/(loss)	$ 0.26	$ (2.81)	$ 1.16

</TABLE>

/(1)/Earnings/(loss)from continuing operations is the same for purposes of calculating basic and diluted EPS.
/(2)/Net income/(loss) available to common stockholders is the same for purposes of calculating basic and diluted EPS.
/(3)/In each period, certain common stock equivalents and their effects on income were excluded from the computation of diluted EPS because they were anti-dilutive.
See Note 3 for amounts excluded and descriptions of those items.

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

CONSOLIDATED BALANCE SHEETS J. C. PENNEY COMPANY, INC. AND SUBSIDIARIES

<TABLE>
<CAPTION>

($ in millions, except per share data)	2001	2000
<S>	<C>	<C>
ASSETS		
Current assets		

Cash (including short-term investments of $2,834 and $935)	$ 2,840	$ 944
Receivables (net of bad debt reserves of $27 and $30)	698	893
Merchandise inventory (net of LIFO reserves of $377 and $339)	4,930	5,269
Prepaid expenses	209	151
Total current assets	8,677	7,257
Property and equipment		
Land and buildings	2,987	2,949
Furniture and fixtures	4,105	3,919
Leasehold improvements	1,225	1,194
Accumulated depreciation	(3,328)	(2,948)
Property and equipment, net	4,989	5,114
Goodwill and other intangible assets (net of accumulated amortization of $573 and $452)	2,740	2,870
Other assets	1,642	1,474
Assets of discontinued operations (including cash and short-term investments of $0 and $156)	--	3,027
TOTAL ASSETS	$ 18,048	$ 19,742
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued expenses	$ 3,465	$ 3,877
Short-term debt	15	--
Current maturities of long-term debt	920	250
Deferred taxes	99	108
Total current liabilities	4,499	4,235
Long-term debt	5,179	5,448
Deferred taxes	1,231	1,136
Other liabilities	1,010	978
Liabilities of discontinued operations	--	1,686
TOTAL LIABILITIES	11,919	13,483
STOCKHOLDERS' EQUITY		
Preferred stock, no par value and stated value of $600 per share: authorized, 25 million shares; issued and outstanding, 0.6 million and 0.7 million shares Series B ESOP convertible preferred	363	399
Common stock, par value $0.50 per share: authorized, 1,250 million shares; issued and outstanding 264 million and 263 million shares	3,324	3,294
Deferred stock compensation	6	--
Reinvested earnings	2,573	2,636
Accumulated other comprehensive (loss)	(137)	(70)
TOTAL STOCKHOLDERS' EQUITY	6,129	6,259
TOTAL LIABILITIES AND EQUITY STOCKHOLDERS' EQUITY	$ 18,048	$ 19,742

</TABLE>

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

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY J. C. PENNEY COMPANY, INC. AND SUBSIDIARIES

<TABLE>
<CAPTION>

($ in millions)	Preferred Stock	Common Stock	Deferred Stock Compensation	Reinvested Earnings	Accumulated Other Comprehensive (Loss)/Income/(1)/	Total Stockholders' Equity
<S>	<C>	<C>	<C>	<C>	<C>	<C>
January 30, 1999	$ 475	$ 2,850	$ --	$ 3,791	$ (14)	$ 7,102
Net income				336		336
Unrealized loss on investments					(14)	(14)
Currency translation adjustments					13	13
Other comprehensive (loss) from discontinued operations					(59)	(59)
TOTAL COMPREHENSIVE INCOME						276
Dividends declared				(537)		(537)
Common stock issued		416				416
Preferred stock retired	(29)					(29)
January 29, 2000	446	3,266	--	3,590	(74)	7,228
Net (loss)				(705)		(705)
Unrealized gain on investments					2	2
Currency translation adjustments					(14)	(14)
Other comprehensive income from discontinued operations					16	16
TOTAL COMPREHENSIVE (LOSS)						(701)

Dividends declared				(249)		(249)
Common stock issued		28				28
Preferred stock retired	(47)					(47)
January 27,200l	399	3,294	--	2,636	(70)	6,259
Net income				98		98
Unrealized gain on investments					12	12
Reclassification adjustment for gains included in income from continuing operations, net of tax					(1)	(1)
Currency translation adjustments					(27)	(27)
Non-qualified plan minimum liability adjustment					(51)	(51)
TOTAL COMPREHENSIVE INCOME						31
Dividends declared				(161)		(161)
Common stock issued		30				30
Preferred stock retired	(36)					(36)
Deferred stock compensation			6			6
January 26, 2002	$ 363	$ 3,324	$ 6	$ 2,573	$ (137)	$ 6,129

</TABLE>

/(1)/ Components of accumulated other comprehensive income/(loss) include: (a) foreign currency translation of $(100) million, $(73) million and $(59) million in 2001,2000 and 1999, respectively. A deferred tax asset has not been established for currency translation adjustments: (b) unrealized gains on investments of $14 million (net of $8 million deferred taxes), $3 million (net of $2 million deferred taxes) and $1 million (net of $1 million deferred taxes) in 2001, 2000 and 1999, respectively: (c) minimum pension liability adjustment of $(51) million (net of a $33 million deferred tax asset) in 2001: and (d) discontinued operations of $(l6) million (net of a deferred tax asset of $8 million) in 1999.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

J. C. PENNEY COMPANY, INC. AND SUBSIDIARIES

<TABLE>
<CAPTION>

($ in millions)	2001	2000	1999
<S>	<C>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES			
Income/(loss) from continuing operations	$ 114	$ (568)	$ 174
Non-cash adjustments to reconcile income/(loss) from continuing operations to net cash provided by operating activities:			
Restructuring, asset impairments and PVOL	56	454	173
Depreciation and amortization, including intangible assets	717	695	704
Real estate (gains)	(26)	--	--
Company contributions to savings and profit sharing plan	58	--	--
Pension (income)	(73)	(79)	(18)
Deferred stock compensation	6	--	--
Deferred taxes	86	(95)	(8)
Change in cash from:			
Receivables	3	33	(100)
Sale of drugstore receivables	200	--	--
Inventory	343	701	229
Other assets	(57)	3	167
Trade payables	(420)	436	(40)
Current income taxes payable	(70)	(l50)	(83)
Other liabilities	50	105	(31)
	987	1,535	1,167
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures	(631)	(678)	(722)
Proceeds from sale of discontinued operations	1,306	--	--
Proceeds from sale of assets	--	30	3,179
Proceeds from sale of investment securities	--	268	164
	675	(380)	2,621
CASH FLOWS FROM FINANCING ACTIVITIES			
Change in short-term debt	15	(330)	(1,650)
Proceeds from the issuance of long-term debt	630	--	--
Payment of long-term debt	(257)	(816)	(467)
Common stock issued, net	30	28	62
Preferred stock redemption	(36)	(47)	(29)
Dividends paid, preferred and common	(161)	(294)	(598)
	221	(1,459)	(2,682)

Cash received from discontinued operations	13	93	--
Net increase/(decrease) in cash and short-term investments	1,896	(211)	1,106
Cash and short-term investments at beginning of year	944	1,155	49
Cash and short-term investments at end of year	$ 2,840	$ 944	$ 1,155
SUPPLEMENTAL CASH FLOW INFORMATION			
Interest paid	$ 420	$ 489	$ 673
Interest received	51	49	61
Income taxes paid/(received)	68	(97)	194

</TABLE>

Non-cash transactions: In 2000, Eckerd entered into capital leases for store photo processing equipment totaling $40 million. In 1999, the Company issued 9.6 million shares of common stock with a value of $354 million to complete the acquisition of Genovese. Also in 1999, GE Capital assumed S650 million of balance sheet debt as part of JCP's sale of proprietary credit card receivables.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS

JCPenney was founded by James Cash Penney in 1902 and has grown to be a major retailer, operating 1,075 JCPenney department stores in all 5O states, Puerto Rico and Mexico, and 54 Renner department stores in Brazil. The major portion of the Company's business consists of predominately family apparel, jewelry, shoes, accessories and home furnishings, and providing services, such as salon, optical, portrait photography and custom decorating, to customers through department stores, catalog and the internet. The catalog and internet business processes over 42 million customer orders annually.

In addition, the Company operates a chain of 2,641 drugstores (primarily under the Eckerd name) located throughout the Southeast, Sunbelt and Northeast regions of the United States. Eckerd drugstores sell prescription drugs as well as general merchandise items such as over-the-counter drugs, beauty products, photo processing services, greeting cards and convenience food.

BASIS OF PRESENTATION

The consolidated financial statements present the results of J. C. Penney Company, Inc. and its subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

Effective January 27, 2002, J. C. Penney Company, Inc. changed its corporate structure to a holding company format. As part of this structure, J. C. Penney Company, Inc. changed its name to J. C. Penney Corporation, Inc. (JCP) and became a wholly owned subsidiary of a newly formed affiliated holding company (Holding Company). The new holding company assumed the name J. C. Penney Company, Inc. The Holding Company has no subsidiaries other than JCP. The Holding Company has no independent assets or operations. All outstanding shares of common and preferred stock were automatically converted into the identical number of and type of shares in the new holding company. Stockholders' ownership interests in the business did not change as a result of the new structure. Shares of the Company remain publicly traded under the same symbol (JCP) on the New York Stock Exchange. 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 by the Holding Company of certain of JCP's outstanding debt securities is full and unconditional. The Holding Company and its consolidated subsidiaries, including JCP, are collectively referred to in this Annual Report as "Company" or "JCPenney," unless indicated otherwise.

USE OF ESTIMATES

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. While actual results could differ from these estimates, management does not expect the differences, if any, to have a material effect on the financial statements.

The most significant estimates relate to inventory valuation under the retail method, specifically permanent reductions to retail prices (markdowns) and adjustments for shortages (shrinkage); valuation of long-lived and intangible assets, including goodwill; and valuation allowances and reserves, specifically related to closed stores, workers' compensation and general liability, income taxes and litigation. Closed store reserves are established for the present value of estimated lease obligations (PVOL) and other exit costs. Workers' compensation and general liability reserves are based on actuarially determined estimates of reported, and incurred but not reported, claims resulting from historical experience and current data. Income taxes are estimated for each jurisdiction in which the Company operates. Deferred tax assets are evaluated for recoverability, and a valuation allowance is recorded if it is deemed more likely than not that the asset will not be realized. Litigation reserves are based on management's best estimate of potential liability, with consultation of inside and outside counsel, and are based upon a combination of litigation and settlement strategies.

FISCAL YEAR

The Company's fiscal year ends on the last Saturday in January. Fiscal 2001 ended January 26, 2002; fiscal 2000 ended January 27, 200l; and fiscal 1999 ended January 29, 2000. All three years contained 52 weeks. The accounts of the Renner stores in Brazil are on a calendar-year basis.

RECLASSIFICATIONS

Certain reclassifications have been made to prior year amounts to conform to the current year presentation. None of the reclassifications impacted the Company's net earnings or earnings per share in any period.

MERCHANDISE AND SERVICES REVENUE RECOGNITION

The Company records revenue at the point of sale for retail stores and at the time of shipment for catalog and internet sales, net of any returns. Commissions earned on sales generated by licensed departments are included as a component of retail sales. For catalog orders

shipped to department stores for pickup by customers, the Company changed its policy in early January 2002 to charge the customer and record the sale when the order is shipped. Previously, for shipments to retail stores' catalog desks, revenue was recorded when the customer picked up and paid for the merchandise. This change did not have a material impact on retail sales for 2001. Shipping and handling fees charged to customers are recorded as retail sales with related costs recorded as cost of goods sold. An allowance has been established to provide for estimated merchandise returns.

ADVERTISING

Advertising costs, which include newspaper, television, radio and other media advertising, are either expensed as incurred or the first time the advertising occurs, and were $947 million, $967 million and $995 million for 2001, 2000 and 1999, respectively. These totals include catalog book costs of $269 million, $312 million and $323 million for 2001, 2000 and 1999, respectively. Catalog book preparation and printing costs, which are considered direct response advertising, are charged to expense over the life of the catalog, not to exceed six months. Included in other assets are deferred advertising costs, primarily catalog book costs, of $72 million as of January 26, 2002, and $87 million as of January 27, 2001.

PRE-OPENING EXPENSES

Costs associated with the opening of new stores are expensed in the period incurred.

PENSION ASSET VALUATION

In accordance with Statement of Financial Accounting Standards (SFAS) No. 87, "Employers' Accounting for Pensions," the Company uses fair value to determine the market-related value of plan assets, which is used in calculating the expected return on assets and gain/loss amortization components of net periodic pension expense. As a result, any increases or decreases in fair value of plan assets above or below the expected return are taken into consideration in the determination of net periodic pension expense in the period in which they occur.

INCOME TAXES

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

EARNINGS/(LOSS) PER COMMON SHARE

Basic earnings/(loss) per share is computed by dividing net income/(loss) less dividend requirements on the Series B ESOP Convertible Preferred Stock, net of tax as applicable, by the weighted average number of common shares outstanding. Diluted earnings/(loss) per share assumes, to the extent dilutive, the exercise of stock options and the conversion of the convertible debt and Series B ESOP Convertible Preferred Stock into the Company's common stock.

STOCK-BASED COMPENSATION

The Company accounts for stock-based compensation by applying Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock issued to Employees," as allowed under SFAS No. 123, "Accounting for Stock-based Compensation." Under APB No. 25, if the number of options is fixed and the exercise price of employee stock options equals or exceeds the market price of the underlying stock on the date of grant, no compensation expense is recorded. Under the provisions of the Company's equity compensation plan, stock options cannot be granted below market.

CASH AND SHORT-TERM INVESTMENTS
The Company considers all highly liquid investments with original maturities of three months or less to be short-term investments. The short-term investments consist primarily of euro-dollar time deposits and money market funds and are stated at cost, which approximates fair market value.

RECEIVABLES, NET
Receivables of the Eckerd managed care operations were $341 million and $510 million as of year-end 2001 and 2000, respectively. Renner credit card receivables were $80 million and $86 million as of year-end 2001 and 2000, respectively. Also included in this classification are notes and miscellaneous receivables. Bad debt reserves have been established for the Eckerd managed care and Renner credit card receivables.

MERCHANDISE INVENTORIES
The majority of merchandise inventory in the Department Store and Catalog segment is valued at the lower of cost (using the last-in, first out or "LIFO" method) or market, determined by the retail method. The lower of cost or market is determined on an aggregate basis for similar types of merchandise. At Eckerd, pharmaceutical and general merchandise warehouse inventories are valued at the lower of LIFO cost or market. General merchandise at retail drugstore locations is valued using a modified retail method. To estimate the effects of inflation for both Department Stores and Catalog and Eckerd on inventories, the Company utilizes internally developed price indices.

PROPERTY AND EQUIPMENT
Property and equipment is stated at cost less accumulated depreciation. Depreciation is provided principally by the straight-line method over the estimated useful lives of the related assets, generally three to 20 years for furniture and equipment and 50 years for buildings. Leasehold improvements are amortized over the shorter of the estimated useful lives of the improvements or the term of the lease.

Routine maintenance and repairs are expensed when incurred. Major replacements and improvements are capitalized. The cost of

assets sold or retired and the related accumulated depreciation or amortization are removed from the accounts with any resulting gain or loss included in net income.

GOODWILL AND OTHER INTANGIBLE ASSETS AND LONG-LIVED ASSETS
Goodwill, which represents the cost in excess of fair value of net assets acquired, and the trade name associated with the Eckerd acquisition have generally been amortized over 40 years. Other intangible assets are amortized over periods ranging from five to seven years.

The Company evaluates potential impairment of identified intangibles, goodwill, including enterprise level goodwill, and fixed assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors considered important which could trigger an impairment review include, but are not limited to, significant underperformance relative to expected historical or projected future operating results, significant changes in the manner of use of the acquired assets or the strategy for the Company's overall business or significant negative industry or economic trends. When the Company determines that the carrying value of long-lived assets may not be recoverable based upon the existence of one or more of the above indicators of impairment, the Company measures any potential impairment based on a projected discounted cash flow method using a discount rate commensurate with the risk inherent in the Company's current business model. Beginning in 2002, when SFAS No. 142, "Goodwill and Other Intangible Assets," becomes effective, the Company will cease amortizing goodwill and the Eckerd trade name. For a discussion of the estimated impact of adopting this new standard see the effect of new accounting standards section in this Note.

CAPITALIZED SOFTWARE COSTS
Costs associated with the acquisition or development of software for internal use are capitalized and amortized over the expected useful life of the software, generally between three and seven years.

VENDOR ALLOWANCES
The Company has agreements with vendors for allowances to purchase and promote their products. The total value of allowances received from vendors is based on amounts specified in the agreement or in certain cases based on purchase volumes. These amounts are recognized in accordance with the provisions of the related agreements as either a reduction of cost of goods sold or a reduction of selling, general and administrative expenses.

FOREIGN CURRENCY TRANSLATION
Foreign currency assets and liabilities are translated into U.S. dollars at the exchange rates in effect at the balance sheet date, while revenues and expenses are translated using average currency rates during the reporting period.

EFFECT OF NEW ACCOUNTING STANDARDS
In October 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-lived Assets." This statement establishes a single accounting model for the impairment or disposal of long-lived assets and new standards for reporting discontinued operations.

SFAS No. 144 supersedes SFAS No. 121, "Accounting for the Impairment of Long-lived Assets and for Long-lived Assets to be Disposed Of" and APB No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." SFAS No. 144 retains the provision of SFAS No. 121 for long-lived assets held for use to evaluate recoverability based on undiscounted cash flows. This Statement establishes specific criteria for a long-lived asset to be held for sale, but retains the accounting treatment under SFAS No. 121 to measure such asset at the lower of carrying value or fair value and to cease depreciation. For long-lived assets to be abandoned, impairment analysis is performed under the held and used model, and depreciation estimates are potentially revised to reflect the use of the asset over its shortened useful life. SFAS No. 144 is effective in fiscal years beginning after December 15, 2001. The Company does not expect the implementation of this Statement to have a material effect on its financial position or results of operations.

In July 2001, the FASB issued SFAS No. 141, "Business Combinations," and SFAS No. 142, effective for fiscal years beginning after December 15,2001. Under the new rules, goodwill and intangible assets with indefinite useful lives will no longer be amortized but will be subject to annual impairment tests using a fair-value based approach, as set forth in the new standard. Other intangible assets with estimable useful lives will continue to be amortized over their useful lives. Under SFAS No. 142, the Eckerd trade name qualifies as an intangible asset with an indefinite useful life; therefore, amortization will cease upon adoption of the new rules.

The Company will apply these new rules beginning in the first quarter of fiscal 2002. The Company has approximately $2,643 million of unamortized goodwill, including the Eckerd trade name, as of January 26, 2002. Application of the non-amortization provisions of the Statement is expected to increase per share earnings approximately $0.25 per year. During the first half of fiscal 2002, the Company will perform the first of the required impairment tests as of January 27, 2002. Based on preliminary analyses of enterprise values for identified reporting units, management does not expect to recognize an impairment charge.

2 DISCONTINUED OPERATIONS

In March 2001, JCP signed a definitive agreement with a U.S. subsidiary of AEGON N.V. (AEGON), to sell the assets of its Direct Marketing Services (DMS) business. Accordingly, DMS was accounted for as a discontinued operation in the 2000 consolidated financial statements, which reflected an estimated net loss on the sale of $296 million. In June 2001, JCP closed on the sale of DMS assets and received cash of approximately $1.3 billion ($1.1 billion after tax). Upon completion of the transaction, the loss was adjusted to $312 million. The additional net loss of $16 million was reflected in the second quarter of 2001 as a loss on the sale of discontinued operations.

Concurrent with the closing, JCP entered into a 15-year strategic marketing arrangement with AEGON whereby JCP will receive cash payments based on the marketing and sales of various financial and membership services products to JCPenney customers.

DMS net revenues were $553 million, $1,164 million and $1,119

million for 2001, 2000 and 1999, respectively. The assets and liabilities of DMS included in the accompanying consolidated balance sheet as of January 27, 2001 consisted of the following:

($ in millions)	2000
Current assets	$ 403
Investments	1,495
Deferred policy acquisition costs	999
Other assets	130
Total assets	3,027
Current liabilities	287
Long-term liabilities	1,399
Total liabilities	$ 1,686

3 EARNINGS PER SHARE

The following potential common shares and their income effects were excluded from the diluted EPS calculations because of their anti-dilutive effect:

... At January 26,2002, January 27,2001, and January 29,2000, options to purchase 9 million, 18 million and 12 million shares of stock at prices ranging from $23 to $71, $9 to $71 and $11 to $71 per share were excluded from the 2001, 200O and 1999 calculations, respectively.

... $650 million aggregate principal amount of 5% subordinated notes convertible into approximately 22.8 million shares of common stock were issued on October 15,2001. These notes are convertible at any time prior to maturity, unless previously redeemed, at the option of the holders into shares of common stock at a conversion price of $28.50 per share, subject to certain adjustments.

... Outstanding preferred stock convertible into 12 million, 13 million and 15 million common shares at January 26, 2002, January 27, 2001, and January 29, 2000, and related dividends were excluded from the 2001, 2000 and 1999 calculations, respectively.

4 SALES OF RECEIVABLES AND ACQUISITIONS

In May 2001, Eckerd securitized certain managed care receivables by forming a bankruptcy-remote special purpose entity, ECR Receivables, Inc. (ECR), which in turn entered into a three-year revolving receivables purchase facility agreement with an unrelated entity, Three Rivers Funding Corporation (TRFC), an asset-backed commercial paper conduit sponsored by Mellon Financial Corporation. Under this facility, Eckerd sells to ECR, on a continuous basis, all of the managed care receivables. ECR then sells to TRFC an undivided interest in all eligible receivables while maintaining a subordinated interest, in the form of overcollateralization, in a portion of the receivables. JCP, through Eckerd, received cash proceeds of $200 million in May 2001 from the sale. Eckerd has agreed to continue servicing the sold receivables at market rates; accordingly, no servicing asset or liability has been recorded.

As of January 26, 2002, securitized managed care receivables totaled $329 million, of which the subordinated retained interest was $129 million. Accordingly, $200 million, which represents the portion of the receivables in which the third party has an undivided ownership interest, qualifies as a sale under the provisions of SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities," and has been reflected as a reduction of receivables in the accompanying consolidated balance sheet as of January 26, 2002. Losses and expenses related to receivables sold under this agreement in 2001 totalled $5 million and are included in other unallocated expenses.

On December 6, 1999, JCP sold its proprietary credit card receivables, including its retained interest in the JCP Master Credit Card Trust and its credit facilities, to GE Capital. The total value of the transaction was approximately $4.0 billion and included $729 million of debt ($79 million of which was off-balance sheet) assumed by GE Capital related to previous receivable securitization transactions. The sale resulted in a pre-tax gain of $55 million, net of an allowance for final settlement, which is included in the consolidated statement of operations as a component of restructuring and other charges, net. An allowance for final settlement of $20 million was established per the agreement between JCP and GE Capital to cover potential bad debts on bankruptcy reaffirmations, certain foreign and minor accounts and potential environmental issues on sold properties. The Company's potential liability related to minor accounts and bankruptcy reaffirmations has expired. However, the potential liability related to foreign accounts and environmental issues on three properties remains as long as GE Capital holds the accounts and properties. The remaining balance of the allowance was approximately $4 million and $6 million as of January 26, 2002 and January 27, 2001, respectively. As a part of the transaction, JCP also outsourced the management of its proprietary credit card business to GE Capital.

On March 1, 1999, JCP acquired Genovese, a 141-drugstore chain with locations in New York, New Jersey and Connecticut. The acquisition was accomplished through the exchange of approximately 9.6 million shares of JCPenney common stock for the outstanding shares of Genovese, and the conversion of outstanding Genovese stock options into approximately 550,000 common stock options of the Company. The total value of the transaction, including the assumption of $6O million of debt, was $414 million, of which $263 million represented goodwill.

In recent years, JCP's acquisitions have been recorded using the purchase method of accounting. Accordingly, the results of operations of the acquired businesses have been included in the consolidated statements of income from their respective acquisition dates. Goodwill has been recognized for the amount of the excess of the purchase price paid over the fair market value of the net assets acquired and amortized on a straight-line basis over 40 years. The amortization of goodwill will cease with the adoption of SFAS NO. 142 at the beginning of fiscal 2002.

5 FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used in estimating the fair values of financial instruments:

CASH AND SHORT-TERM INVESTMENTS. The carrying amount approximates fair value because of the short maturity of these instruments.

SHORT-TERM AND LONG-TERM DEBT. Carrying value approximates fair value for short-term debt. The fair value of long-term debt, excluding capital leases, is estimated by obtaining quotes from brokers or is based on current rates offered for similar debt. At January 26, 2002, long-term debt, including current maturities, had a carrying value of $6.1 billion and a fair value of $5.4 billion. At January 27, 2001, long-term debt, including current maturities, had a carrying value of $5.6 billion and a fair value of $4.0 billion.

CONCENTRATIONS OF CREDIT RISK. The Company has no significant concentrations of credit risk.

6 ACCOUNTS PAYABLE AND ACCRUED EXPENSES

($ in millions)	2001	2000
Trade payables	$ 1,551	$ 1,948

Accrued salaries, vacation and bonus	541	446
Customer gift cards/certificates	161	166
Taxes payable	158	195
Interest payable	137	136
Advertising payables	136	99
Workers' compensation and general liability insurance	102	74
Restructuring reserves	55	90
Common dividends payable	34	34
Other/(1)/	590	689
Total	$ 3,465	$ 3,877

/(1)/ Other includes various components that are individually insignificant such as general accrued expenses related to store operations, fixed asset accruals and rent payable.

7 SHORT-TERM DEBT

Short-term debt outstanding was $15 million at January 26, 2002. The Company did not have any short-term debt outstanding at January 27, 200l.

The Company has a committed bank credit line in the form of a $1.5 billion, five-year revolving credit facility, which expires November 21, 2002. No borrowings have been made under this facility. The Company also has a $630 million committed trade letter of credit facility with six banks to support its direct import merchandise program. This facility expires in August 2002. As of January 26, 2002, $200 million of letters of credit issued on behalf of JCP were outstanding. Although separate facilities, the bank credit line and the trade letter of credit facility are linked to provide an aggregate $1.5 billion total credit facility.

8 LONG-TERM DEBT

($ in millions)	2001	2000
Issue		
6.125% to 7.625% Notes, due 2002 to 2097	$ 2,625	$ 2,625
7.125% to 8.125% Debentures, due 2016 to 2037	1,525	1,525
6.5% to 7.05% Medium-term notes, due 2002 to 2015	700	700
5.0% Convertible subordinated notes, due 2008	650	--
8.25% to 9.75% Sinking fund debentures, due 2021 to 2022	405	405
9.05% Notes, due 2001	--	250
6.0% Original issue discount debentures, due 2006	146	137
Total notes and debentures	6,051	5,642
Capital lease obligations and other	48	56
Less: current portion	(920)	(250)
Total long-term debt	$ 5,179	$ 5,448

During 2001, $250 million principal amount of notes matured and was paid. Required principal payments on long-term debt and notes payable over the next five years, excluding capital lease obligations, are $920 million in 2002, $550 million in 2003, $300 million in 2004, $618 million in 2005 and $171 million in 2006 and $3,492 thereafter.

CONVERTIBLE DEBT

JCP issued $650 million of 5% Convertible Subordinated Notes due 2008 in October 2001. These notes are convertible at any time prior to maturity, unless previously redeemed, at the option of the holders into shares of the Company's common stock at a conversion price of $28.50 per share, subject to certain adjustments. The notes are subordinated to the Company's senior indebtedness. The notes will not be subordinated to JCP's trade payables or other general creditors of JCP. The notes are structurally subordinated to all indebtedness and other liabilities of the Company and its subsidiaries. JCP may redeem the notes on or after October 20, 2004.

9 CAPITAL STOCK

At January 26, 2002, there were 50,477 stockholders of record. On a combined basis, the Company's savings plans, including the Company's employee stock ownership plan (ESOP), held 49.1 million shares of common stock or 17.8% of the Company's common shares after giving effect to the conversion of preferred stock.

PREFERRED STOCK

The Company has authorized 25 million shares of preferred stock; 604,278 and 664,314 shares of Series B ESOP Convertible Preferred Stock were issued and outstanding as of January 26, 2002 and January 27, 2001, respectively. Each share is convertible into 20 shares of the Company's common stock at a guaranteed minimum price of $30 per common share. Dividends are cumulative and are payable semi-

annually at a rate of $2.37 per common share equivalent, a yield of 7.9%. Shares may be redeemed at the option of the Company or the ESOP under certain circumstances. The redemption price may be satisfied in cash or common stock or a combination of both, at the Company's sole discretion.

PREFERRED STOCK PURCHASE RIGHTS
In January 2002, in connection with the holding company formation, the Board of Directors issued one preferred stock purchase right on each outstanding and future share of common stock. JCP's then-existing rights plan, which was established in March 1999 with terms substantially similar to those of the Company's 2002 plan, was simultaneously amended so that it expired. The new rights entitle the holder to purchase, for each right held, 1/1000 of a share of Series A Junior Participating Preferred Stock at a price of $140. The rights are exercisable by the holder upon the occurrence of certain events and are redeemable by the Company under certain circumstances as described by the rights agreement. The rights agreement contains a three-year independent director evaluation (TIDE) provision. This TIDE feature provides that a committee of the Company's independent directors will review the rights agreement at least every three years and, if they deem it appropriate, may recommend to the Board a modification or termination of the rights agreement.

10 STOCK-BASED COMPENSATION

In May 2001, JCP's stockholders approved a new 2001 Equity Compensation Plan (2001 Plan) which initially reserved 16 million shares of common stock for issuance, plus shares reserved but not subject to awards under the Company's 1997 and 2000 equity plans. The 2001 Plan provides for common stock to be granted to associates as options to purchase the Company's common stock, stock awards or stock appreciation rights. No future grants will be made under the 1997 and 2000 plans. At January 26, 2002, 18.7 million shares of stock were available for future grants. The number of option shares is fixed at the grant date, and the exercise price of stock options is generally set at the market price on the date of the grant. Vesting periods for the stock options range from one to five years. Options have a maximum term of ten years. In 2000, 3.5 million options that vest over five years were granted to the Company's new chairman pursuant to his employment agreement at an exercise price of $16.06, while the market price on the grant date was $13.63. The 2001 Plan also provides for grants of stock awards and stock options to outside members of the Board of Directors. Stock options acquired by such directors are not transferable until a director terminates service.

Approximately 108,000 shares of restricted stock, with market values at the date of grant of $1.6 million, were granted in 2001. The weighted-average fair value of these awards at the grant date was $14.88. Restricted stock grants vest over performance periods, ranging from one to five years. The grant-date market value of restricted shares is being amortized as compensation expense over the vesting period. Total compensation expense recorded for stock-based employee compensation awards was $7.5 million in 2001 and $2.3 million in 2000. Prior to fiscal 2000, awards of performance share units and restricted stock were not significant, and compensation expense was recognized in the year the awards were granted.

A summary of stock option activity follows:

(shares in thousands, price is weighted average)

	Outstanding		Exercisable	
	Shares	Price	Shares	Price
January 30, 1999	6,972	$48	5,418	$41
Granted	5,619	36		
Exercised	(479)	23		
Cancelled/forfeited	(280)	40		
January 29, 2000	11,832	$43	6,913	$48
Granted	7,294	16		
Cancelled/forfeited	(959)	35		
January 27, 2001	18,167	$33	6,592	$48
Granted	3,402	16		
Exercised	(56)	17		
Cancelled/forfeited	(2,823)	29		
January 26, 2002	18,690	$30	5,840	$48

The following table summarizes stock options outstanding at January 26, 2002:

(shares in thousands, price is weighted average)

	Outstanding			Exercisable	
Exercise price range	Shares	Price	Remaining term (years)	Shares	Price
$9.22-$15	3,236	$ 14	9.0	66	$ 12

$15.01-$25	6,281	16	8.4	716	16
$25.01-$35	501	30	5.8	303	31
$35.01-$45	4,912	38	6.3	998	42
$45.01-$55	1,833	48	4.6	1,830	48
Over $55	1,927	66	4.8	1,927	66
Total	18,690	$ 30	7.1	5,840	$ 48

As an alternative to accounting for stock-based compensation under APB No. 25, SFAS No. 123 establishes a fair-value method of accounting for employee stock options or similar equity instruments. The Company used the Black-Scholes option-pricing model to estimate the grant date fair value of its stock option grants for the periods presented. Had compensation cost for these plans been determined in accordance with SFAS No. 123, the compensation expense would have been approximately $14 million in 2001, $26 million in 2000 and $40 million in 1999, reducing EPS by $0.03, $0.08 and $0.14 in 2001, 2000 and 1999, respectively.

The following Black-Scholes assumptions were used:

Option Assumptions	2001	2000	1999
Dividend yield	4.2%	4.2%	3.8%
Expected volatility	40.2%	35.2%	25.1%
Risk-free interest rate	4.8%	6.2%	5.5%
Expected option term	5 years	5 years	7 years
Weighted-average fair value of options at grant date	$4.36	$3.78	$8.41

11 INTEREST EXPENSE, NET

($ in millions)	2001	2000	1999
Short-term debt	$ --	$ 13	$ 137
Long-term debt	426	464	538
Short-term investments	(50)	(45)	(35)
Other, net/(1)/	10	(5)	(33)
Interest expense, net	$ 386	$ 427	$ 607

/(1)/ includes $8 million and $34 million in 2000 and 1999, respectively, for interest income from the Company's investment in asset-backed certificates.

12 LEASES

The Company conducts the major part of its operations from leased premises that include retail stores, catalog fulfillment centers, warehouses, offices and other facilities. Almost all leases will expire during the next 20 years; however, most leases will be renewed or replaced by leases on other premises. Rent expense for real property operating leases totaled $705 million in 2001, $711 million in 2000 and $667 million in 1999, including contingent rent, based on sales, of $58 million, $59 million and $64 million for the three years, respectively.

JCP also leases data processing equipment and other personal property under operating leases of primarily three to five years. Rent expense for personal property leases was $128 million in 2001, $152 million in 2000 and $142 million in 1999.

Future minimum lease payments for non-cancelable operating and capital leases, net of executory costs, principally real estate taxes, maintenance and insurance, and subleases, as of January 26, 2002, were:

($ in millions)	Operating	Capital
2002	$ 669	$ 17
2003	614	13
2004	563	12
2005	512	9
2006	464	--
Thereafter	4,114	--
Total minimum lease payments	$ 6,936	$ 51
Present value	$ 3,558	$ 43
Weighted average interest rate	9.8%	10.4%

13 BENEFIT PLANS

The Company's benefit plans consist principally of a noncontributory pension plan, noncontributory supplemental retirement and deferred compensation plans for certain management associates, a contributory medical and dental plan, and a 401(k) and employee stock ownership plan. For the JCPenney 401(k) plan, an additional discretionary contribution of $48 million was made for fiscal 2001 based on improved results and to provide a more competitive match. A discretionary match was not made in 2000 due to operating losses incurred. Pension plan assets are invested in a balanced portfolio of equity and debt securities managed by third party investment managers. As of January 1, 1999, all Eckerd retirement benefit plans were frozen and employees began to accrue benefits under the Company's retirement plans. In 2001, the Company adopted an amendment to its pension plan to freeze benefits and participation for substantially all drugstore associates effective July 31, 2001. In its place, Eckerd adopted a new 401(k) plan for all eligible drugstore associates effective January 1, 2002. The change in the pension plan has been accounted for as a curtailment gain in accordance with SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits." The reduction in the projected benefit obligation of approximately $11 million has been recognized in Eckerd segment results as a reduction of SG&A expenses.

ASSUMPTIONS

($ in millions)	2001	2000	1999
Discount rate	7.25%	7.75%	7.75%
Expected return on assets	9.5%	9.5%	9.5%
Salary progression rate	4.0%	4.0%	4.0%
Measurement date	10/31	10/31	12/31

EXPENSE

($ IN MILLIONS)	2001	2000	1999
PENSION AND HEALTH CARE			
Service cost	$ 90	$ 97	$ 109
Interest cost	235	236	220
Projected return on assets	(348)	(354)	(314)
Net amortization	(1)	(17)	13
Curtailment gain	(11)	--	--
Total pension and health care	(35)	(38)	28
Savings plan expense	65	3	37
NET PERIODIC BENEFIT COST/(INCOME)	$ 30	$ (35)	$ 65

ASSETS AND OBLIGATIONS

PENSION PLANS/(1)/

($ in millions)	2001	2000
CHANGE IN PROJECTED BENEFIT OBLIGATION		
Beginning of year	$ 2,890	$ 2,737
Service and interest cost	297	254
Actuarial loss	84	69
Benefits paid	(211)	(170)
Amendments and other	4	--
End of year	3,064	2,890
CHANGE IN FAIR VALUE OF PLAN ASSETS		
Beginning of year	3,753	3,791
Company contributions to non-qualified plans	29	25
Actual return on assets	(497)	107
Benefits paid	(211)	(170)
End of year	3,074	3,753
FUNDED STATUS OF PLAN		
Excess of fair value over projected benefits	10	863
Unrecognized losses/(gains) and prior service cost	657	(278)
Prepaid pension cost	$ 667	$ 585

/(1)/ Including excess benefit and supplemental retirement plans.

The accumulated benefit obligation for the unfunded supplemental retirement plans at January 26, 2002, was $296 million.

MEDICAL AND DENTAL

($ in millions)	2001	2000
Accumulated benefit obligation	$ 235	$ 334
Net unrecognized losses/(gains)	80	(14)
Net medical and dental liability	$ 315	$ 320

A 1% increase (or decrease) in assumed health care cost trend rates would have increased (or decreased) the accumulated postretirement benefit obligation as of year-end 2001 by approximately $0.5 million and the aggregate service and interest cost for fiscal 2001 by approximately $2 million. For measurement purposes, a 10% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2001. The rate was assumed to decrease gradually to 5% by 2006 and remain there. The potential impact of a 1% change in health care cost trend rates on the accumulated postretirement benefit obligation is much less significant in the current year due to the change that was made in the second quarter of 2001 to reduce and cap Company contributions. Going forward, the Company will provide a defined dollar commitment toward retiree medical and dental costs.

14 RESTRUCTURING AND OTHER CHARGES, NET

The Company has implemented a number of initiatives to improve its competitive position and future financial performance, including closing underperforming stores and reducing headcount in corporate offices and field locations. These initiatives, along with the integration of several drugstore formats with the Eckerd Drugstore business acquired in 1997, resulted in restructuring and other charges.

As it related to store closing restructuring charges, the major actions comprising the plan to close stores consisted of the identification of stores that did not meet the Company's profit objectives, establishment of closing dates (to coincide with termination rights and/or other trigger dates contained in leases, if applicable) and notification of affected parties (e.g., employees, landlords and community representatives) in accordance with the Company's store closing procedures. These closings were over and above normal store closures within a given year, which are typically relocations. Substantially all of the stores were leased, and the Company will not be responsible for the disposal of property, other than fixtures, which for the most part will be abandoned.

During 2001, 2000 and 1999, the Company recorded $21 million, $488 million and $169 million, respectively, of restructuring and other charges, net. The following table summarizes these charges for the last three years:

($ in millions)	2001	2000	1999
DEPARTMENT STORES AND CATALOG			
Store closing costs	$ 16	$ 206	$ --
Asset impairments	--	68	130
Contract cancellations	--	12	--
Headcount reductions	3	30	--
Gain on sale of assets	--	--	(55)
Adjustments to prior period reserves and other	9	(12)	(11)
Subtotal	28	304	64
ECKERD DRUGSTORES			
Store closing costs	--	111	--
Asset impairments	--	23	110
Contract cancellations	--	72	--
Headcount reductions	--	5	--
Gain on sale of assets	--	(13)	--
Adjustments to prior period reserves and other	(7)	(14)	(5)
Subtotal	(7)	184	105
Total	$ 21	$ 488	$ 169

The status of related reserves is shown in Note 15.

2001 - DEPARTMENT STORES AND CATALOG

During 2001, Department Stores and Catalog recorded a net pretax charge of $28 million. Charges related to store closings were $16 million. The 2000 store closing plan was modified in 2001 to include two additional units, resulting in an $8 million charge for the PVOL ($2 million), asset impairments ($5 million) and severance ($1 million). Charges also included $7 million for the write-down of the residual value of certain assets of seven stores included in the 2000 store closing plan. Also related to store closings was $1 million recorded for the severance benefits paid to associates in seven stores included in the 2000 plan but not announced until 2001.

Other charges included in Department Stores and Catalog were severance benefits totaling $3 million paid to certain members of senior management related to the new merchandising and catalog organizations, $3 million of interest related to PVOL and additional expense of $6 million for adjustments to prior period reserves for higher costs related to PVOL.

2001 - ECKERD DRUGSTORES

Eckerd activity related primarily to downward adjustments to prior period reserves.

2000 - DEPARTMENT STORES AND CATALOG
STORE CLOSING COSTS ($206 MILLION). As part of two different programs, the Company approved plans to close a total of 92 underperforming JCPenney stores. The 92 stores generated sales of approximately $950 million and incurred operating losses of approximately $28 million in 1999. By the end of 2000, 48 stores were closed, and the remainder closed by the end of 2001. Store closing costs included asset impairments ($113 million), PVOL ($77 million) and severance ($16 million).

Store assets consist primarily of furniture and fixtures, and buildings and improvements. Asset impairment charges were determined in accordance with SFAS No. 121 and represented the excess of the carrying value of the assets over their estimated fair value.

The store closing plans anticipated that the Company would remain liable for all future lease payments. The PVOL was calculated, net of assumed sublease income, using a discount rate. The discount rate used for the 45 stores approved in the first quarter of 2000 was 6.7% and resulted in a charge of $45 million. The discount rate used for the 47 stores approved in fourth quarter 2000 was 5.2% and resulted in a charge of $32 million. A reserve was established for PVOL based on an average of three years of lease payments or a negotiated termination fee.

Severance benefits totaling $14 million were paid to approximately 3,370 associates by the end of 2001.

ASSET IMPAIRMENTS ($68 MILLION). During 2000, the Company evaluated its investments in long-lived assets to be held and used in operations on an individual store basis, and determined that, based on historical operating results and updated operating projections, asset carrying values on 13 stores were not supported by projected undiscounted cash flows. Accordingly, an impairment charge of $64 million was recorded to write down the carrying value of store assets to their estimated fair value, which was determined based on projected discounted cash flows using a discount rate of 11%. In addition, a charge of $4 million was recorded for the permanent impairment of a non-strategic business investment.

CONTRACT CANCELLATIONS ($12 MILLION). The Company recorded a charge for the remaining lease payments associated with the termination of a computer hardware contract and established a corresponding reserve.

HEADCOUNT REDUCTIONS ($30 million). The Company approved a plan to eliminate 730 JCPenney Home Office and field positions. A charge of $30 million was recorded for severance benefits to be paid, and a corresponding reserve was established. In addition, the Company provided for certain senior management severance packages. All the employees from the plan had been terminated and paid a total of $32 million for severance as of January 26, 2002.

ADJUSTMENTS TO PRIOR PERIOD RESERVES AND OTHER ($12 MILLION). This net credit was comprised principally of the reversal of $9 million of the allowance established in connection with the sale of the proprietary credit card receivables due to lower closing costs than anticipated.

2000 - ECKERD DRUGSTORES
STORE CLOSING COSTS ($111 MILLION). In 2000, Eckerd approved a plan to close 279 underperforming stores. These stores generated sales of approximately $650 million and incurred operating losses of approximately $30 million in 1999. These closings were over and above the normal store closures within a given year, which are typically relocations. All 279 stores had been closed as of January 26, 2002. Store closing costs of $lO6 million included PVOL ($90 million), severance ($4 million) and other exit costs ($16 million), offset by a $4 million net gain on the disposal of fixed/intangible assets.

The drugstore closing plan anticipated that Eckerd would remain liable for all future lease payments. The PVOL was calculated, net of assumed sublease income, using a discount rate of 7%. A charge of $90 million was recorded and a corresponding reserve was established. On average the remaining lease term for closed stores was approximately six years, and payments during the next five years are expected to be approximately $12 million per year.

A charge of $4 million was recorded for severance benefits to be paid to these employees, and a corresponding reserve was established. By January 26, 2002, 560 employees had been paid a total of $3 million in severance benefits.

A charge of $16 million was recorded for other exit costs related to exiting the Puerto Rico market and store equipment leases, and a corresponding reserve was established.

A charge of $5 million was recorded for exit costs related to closing approximately 250 JCPenney catalog desks in Eckerd Drugstores.

ASSET IMPAIRMENTS ($23 MILLION). An impairment charge of $14 million was recorded for fixtures associated with relocated drugstores while $9 million was recorded for capitalized costs for Eckerd's web site, which is no longer a near-term focus.

CONTRACT CANCELLATIONS ($72 MILLION). Eckerd terminated a contract with its primary third party information technology service provider. The expenses related to asset impairments ($48 million) and termination costs ($24 million), and a corresponding reserve was established.

HEADCOUNT REDUCTIONS ($5 MILLION). In the fourth quarter of 2000, Eckerd approved a plan to eliminate 265 headquarters and field positions. A charge of $5 million was recorded for severance benefits to be paid to these employees, and a corresponding reserve was established. About 100 employees had been terminated as of January 26, 2002, and were paid $5 million in severance benefits.

GAIN ON THE SALE OF ASSETS ($13 MILLION). The Company sold a note receivable associated with the divestiture of certain drugstore locations, pursuant to a Federal Trade Commission agreement. The sale of the note generated cash proceeds of $16 million, the note had a net book value of $3 million and resulted in a net gain of $13 million.

ADJUSTMENTS TO PRIOR PERIOD RESERVES AND OTHER ($14 MILLION). Downward adjustments in prior period reserves resulted in a credit of $16 million. In addition a $2 million charge was recorded for termination costs paid to developers for cancelled projects.

1999 - DEPARTMENT STORES AND CATALOG
ASSET IMPAIRMENTS ($130 MILLION). An asset impairment charge was recorded for underperforming department stores in accordance with SFAS No. 121. The impairment charge represents the excess of the carrying value of the assets, including intangible assets, over fair value related to 10 stores, the majority of which were acquired in 1995 in the Washington, D.C., market. The charge primarily represents the writedown of goodwill associated with the acquisition. Three of the impaired stores had sale contracts pending at the end of 1999 and were written down to fair value based on the established sales prices. These stores were sold in 2000 for cash proceeds of $36 million, which approximated the Company's carrying value of the fixed assets at the sale date. Fair value for three of the other department stores was determined based on independent appraisals, and discounted cash flows were used to determine fair value for the remaining stores.
GAIN ON THE SALE OF ASSETS ($55 MILLION). In December 1999, JCP sold its private-label credit card accounts receivable, including its credit facilities, to GE Capital at a gain (see Note 4 for further discussion of the sale).
ADJUSTMENTS TO PRIOR PERIOD RESERVES AND OTHER ($11 MILLION). Reserves were reduced $7 million based on the negotiation of lease terminations that were lower than expected. In addition, gains on the sale of two closed department store locations that had been impaired in 1997 totaled $4 million.

1999 - ECKERD DRUGSTORES
ASSET IMPAIRMENTS ($110 MILLION). In accordance with SFAS No. 121, an asset impairment charge was recorded for 289 underperforming drugstores located throughout the Eckerd operating area. The impairment charge represented the excess of the carrying value of the assets over the estimated fair value. The impaired drugstores generally represented smaller, low-volume stores that were former independent units and chains acquired over the years that did not meet Eckerd performance standards and could not be relocated. The majority of these stores were subsequently closed.
ADJUSTMENTS OF PRIOR PERIOD RESERVES ($5 MILLION). Reserves were adjusted downward.

15 ROLLFORWARD OF RESTRUCTURING RESERVES

The following tables present the activity and balances of the reserves established in connection with restructuring charges:

<TABLE>
<CAPTION>

($ in millions)	Balance 1/29/00	Additions	Cash Payments	Other Adjustments	Balance 1/27/01	Additions	Cash Payments	Other Adjustments	Balance 1/26/02
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
1996 AND 1997 CHARGES/(1)/	$ 111	$ --	$ (10)	$ (29)	$ 72	$ --	$ (9)	$--	$ 63
2000 AND 2001 CHARGES									
DEPARTMENT STORES AND CATALOG									
PVOL	--	$ 77	(8)	(1)	68	2	(26)	8	52
Severance	--	16	(8)	(2)	6	2	(7)	--	1
Contract cancellations	--	12	(1)	--	11	--	(4)	--	7
Headcount reductions	--	30	(23)	2	9	--	(9)	--	--
ECKERD DRUGSTORES									
PVOL	--	90	(20)	(7)	63	--	(12)	(2)	49
Severance	--	4	(3)	(1)	--	--	--	--	--
Other exit costs	--	16	(9)	(5)	2	--	(1)	(1)	--
Contract cancellations	--	24	--	--	24	--	(14)	(8)	2
Headcount reductions	--	5	(2)	--	3	--	(3)	--	--
TOTAL 2000 AND 2001	$ --	$ 274	$ (74)	$ (14)	$ 186	$ 4	$ (76)	$ (3)	$ 111
Total	$ 111	$ 274	$ (84)	$ (43)	$ (258)	$ 4	$ (85)	$ (3)	$ 174

</TABLE>

/(1)/ The remaining balance of reserves established in 1996 and 1997 of $63 million relates primarily to remaining lease obligations on drugstores that the Company was required to divest in connection with the Eckerd Drugstore acquisition.

The above table provides rollforwards of the reserves that were established for each of these charges and the status of the reserves at January 26, 2002. The current portion of the reserve is $55 million and $90 million for 2001 and 2000, respectively, and is included in accounts payable and accrued expenses. Costs are being charged against the reserves as incurred. Reserves are reviewed for adequacy on a periodic basis and are adjusted as appropriate. Cash payments related to these reserves are expected to be approximately $55 million in 2002, and the remaining cash payments are expected to be made by the end of 2005.

16 TAXES

Deferred tax assets and liabilities reflected in the Company's consolidated balance sheet as of January 26, 2002, were measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The major components of deferred tax assets/(liabilities) as of January 26, 2002 and January 27, 2001 were as follows:

($ in millions)	2001	2000
DEFERRED TAX ASSETS		
Pension and other retiree obligations	$ 248	$ 231
Workers' compensation/general liability	127	138
Accrued vacation pay	65	90
Closed store reserves	44	54
State NOL's	190	171
Other/(1)/	160	182
Total deferred tax assets	834	866
Less valuation allowance:	(85)	(60)
Net deferred tax assets	$ 749	$ 806
DEFERRED TAX LIABILITIES		
Depreciation and amortization	$ (1,067)	$ (1,081)
Prepaid pension	(340)	(313)
Leveraged leases	(297)	(306)
Inventories	(151)	(142)
Other/(2)/	(224)	(208)
Total deferred tax liabilities	(2,079)	(2,050)
Net deferred tax (liabilities)	$ (1,330)	$ (1,244)

/(1)/ Includes certain accrued items not deductible for tax purposes until paid, such as contract cancellations and severance benefits. Also includes charitable contribution carryovers and certain deferred income items currently recognized for tax purposes.

/(2)/ Includes deferred tax items related to prepaid expenses, property taxes and original issue discount.

Management's assessment is that the character and nature of future taxable income may not allow the Company to realize certain tax benefits of state net operating losses (NOL's) within the prescribed carryforward period. Accordingly, a valuation allowance has been established for the amount of deferred tax assets generated by state NOL's which may not be realized.

U.S. income and foreign withholding taxes were not provided on certain unremitted earnings of international affiliates that the Company considers to be permanent investments.

The components of the provision for income taxes are as follows:

INCOME TAX EXPENSE

($ in millions)	2001	2000	1999
CURRENT			
Federal and foreign	$ 10	$ (223)	$ 133
State and local	(7)	--	(21)
	3	(223)	112
DEFERRED			
Federal and foreign	68	(68)	(2)
State and local	18	(27)	(6)
	86	(95)	(8)
TOTAL	$ 89	$ (318)	$ 104
Effective tax rate	43.7%	(35.9)%	37.4%

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

RECONCILIATION OF TAX RATES

(percent of pre-tax income)	2001	2000	1999
Federal income tax at statutory rate	35.0%	(35.0)%	35.0%
State and local income taxes, less federal income tax benefit	3.4	(2.0)	(6.5)
Tax effect of dividends on allocated ESOP shares	(3.5)	(1.1)	(5.8)

Non-deductible goodwill	11.1	2.6	8.2
Other permanent differences and credits	(2.3)	(0.4)	6.5
Total	43.7%	(35.9)%	37.4%

The tax rate in 2001 increased due to a higher percentage of non-deductible permanent book/tax differences, principally goodwill, relative to income than in prior years.

17 LITIGATION

The Company is subject to various legal and governmental proceedings involving routine litigation incidental to the business.

While no assurance can be given as to the ultimate outcome of these matters, management currently believes that the final resolution of these actions, individually or in the aggregate, will not have a material adverse effect on the annual results of operations, financial position, liquidity or capital resources of the Company.

18 SEGMENT REPORTING

Reportable segments were determined based on similar economic characteristics, the nature of products and services and the method of distribution. Performance of the segments is evaluated based on segment operating profit. Segment operating profit is gross margin less SG&A expenses. Segment assets include goodwill and other intangibles; however, segment operating profit does not include the amortization related to these assets. Segments are as follows:

DEPARTMENT STORES AND CATALOG. The majority of consolidated retail sales, net (57%, 59% and 61% for fiscal 2001, 2000 and 1999, respectively) is generated from providing merchandise and services to consumers through department stores and catalog, including the Company's web site, JCPenney.com. Department stores and catalog generally serve the same customers, have virtually the same mix of merchandise, and the majority of catalog sales are completed in department stores. In addition, department stores accept returns from sales initiated in department stores, catalog and via the internet.

ECKERD DRUGSTORES. Revenues for this segment represented 43%, 41% and 39% of consolidated retail sales, net for fiscal 2001,200O and 1999, respectively.

OTHER UNALLOCATED. Other unallocated includes corporate unallocated expenses and real estate investment activities.

BUSINESS SEGMENT INFORMATION

<TABLE>
<CAPTION>

($ in millions)	Department Stores and Catalog	Eckerd Drugstores	Other Unallocated	Total Company
<S>	<C>	<C>	<C>	<C>
2001				
Retail sales, net	$ 18,157	$ 13,847	$ --	$ 32,004
Segment operating profit	548	208	--	756
Other unallocated			(25)	(25)
Net interest expense			(386)	(386)
Acquisition amortization			(121)	(121)
Restructuring and other charges, net			(21)	(21)
Income from continuing operations before income taxes				203
Total assets	11,233	6,688	127	18,048
Capital expenditures	332	299	--	631
Depreciation and amortization expense	370	226	121	717
2000				
Retail sales, net	$ 18,758	$ 13,088	$ --	$ 31,846
Segment operating profit/(loss)	254	(76)	--	178
Other unallocated			(27)	(27)
Net interest expense			(427)	(427)
Acquisition amortization			(122)	(122)
Restructuring and other charges, net			(488)	(488)
Loss from continuing operations before income taxes				(886)
Total assets	9,659	6,967	3,116/(1)/	19,742
Capital expenditures	361	317	--	678
Depreciation and amortization expense	360	213	122	695
1999				

Retail sales, net	$ 19,316	$ 12,427	$ --	$ 31,743
Segment operating profit	670	183	--	853
Other unallocated			13	13
Net interest expense and credit operations			(294)	(294)
Acquisition amortization			(125)	(125)
Restructuring and other charges, net			(169)	(169)
Income from continuing operations before income taxes				278
Total assets	10,921	7,053	2,934/(1)/	20,908
Capital expenditures	346	376	--	722
Depreciation and amortization expense	386	193	125	704

</TABLE>

/(1)/ Includes assets of discontinued operations of $3,027 million and $2,847 million for 2000 and 1999, respectively.

QUARTERLY DATA (UNAUDITED) J. C. PENNEY COMPANY, INC. AND SUBSIDIARIES

<TABLE>
<CAPTION>

	First		Second		Third		Fourth	
($ in millions, except per share data)	2001	2000	2001	2000	2001	2000	2001	2000
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Retail sales, net	$7,522	$ 7,528	$7,211	$ 7,207	$7,729	$ 7,538	$ 9,542	$ 9,573
LIFO gross margin	2,234	2,224	2,037	2,105	2,283	2,169	2,66l	2,317
Income/(loss) From continuing operations	41	(156)	(53)	(19)	31	(70)	95	(323)
Income from discontinued operations	--	38	--	42	--	40	--	39
Loss on sale of discontinued operations	--	--	(16)	--	--	--	--	(296)
Net income/(loss)	41	(118)	(69)	23	31	(30)	95	(580)
Earnings/(loss) per common share, diluted								
Continuing operations	0.13	(0.63)	(0.23)	(0.10)	0.09	(0.30)	0.32	(1.26)
Income from discontinued operations	--	0.15	--	0.16	--	0.15	--	0.15
(Loss) on sale of discontinued operations	--	--	(0.06)	--	--	--	--	(1.13)
Net income/(loss)	0.13	(0.48)	(0.29)	0.06	0.09	(0.15)	0.32	(2.24)
Dividend per common share	0.125	0.2875	0.125	0.2875	0.125	0.125	0.125	0.125
Common stock price range								
High	20.73	19.75	29.50	19.69	28.85	18.25	27.82	13.38
Low	12.98	12.88	19.30	14.00	18.64	8.69	20.90	8.63
Close	20.66	13.88	27.14	16.58	23.90	10.63	23.70	12.81

</TABLE>

FIVE YEAR FINANCIAL SUMMARY (UNAUDITED) J. C. PENNEY COMPANY, INC. AND SUBSIDIARIES

<TABLE>
<CAPTION>

(In millions, except per share data and employee count)	2001	2000	1999	1998	1997
<S>	<C>	<C>	<C>	<C>	<C>
RESULTS FOR THE YEAR					
Retail sales, net	$ 32,004	$ 31,846	$ 31,743	$ 29,761	$ 29,796
Percent increase/(decrease)	0.5%	0.3%	6.7%	(O.l)%	30.7%
Income/(loss) from continuing operations	114	(568)	174	438	413
Return on beginning stockholders' equity - continuing operations	1.8%	(7.9)%	2.5%	6.0%	7.0%/(1)/
PER COMMON SHARE					
Income/(loss) from continuing operation/(2)/	$ 0.32	$ (2.29)	$ 0.54	$ 1.58	$ 1.49
Dividends	0.50	0.825	1.92	2.18	2.14
Stockholders' equity	22.20	22.68	26.17	26.74	27.31
FINANCIAL POSITION					
Capital expenditures	631	678	722	800	846
Total assets	18,048	19,742	20,908	23,605	23,405
Long-term debt, including current maturities	6,099	5,698	6,469	7,581	7,435
Stockholders' equity	6,129	6,259	7,228	7,102	7,290
OTHER					
Common shares outstanding at end of year	264	263	261	250	251
Weighted average common shares					
Basic	263	262	259	253	247
Diluted	267	262	259	254	250
Number of employees at end of year (in thousands)	246	267	287	267	259

</TABLE>

/(1)/ Assumes the completion of the Eckerd acquisition in beginning equity.
/(2)/ Calculation excludes the effects of anti-dilutive common stock equivalents.

FIVE YEAR OPERATIONS SUMMARY (UNAUDITED) J. C. PENNEY COMPANY, INC. AND SUBSIDIARIES

<TABLE>
<CAPTION>

	2001	2000	1999	1998	1997
<S>	<C>	<C>	<C>	<C>	<C>
Department Stores and Catalog					
Number of department stores					
JCPenney department stores					
Beginning of year	1,111	1,143	1,148	1,203	1,228
Openings	13	10	14	12	34
Closings	(49)	(42)	(19)	(67)	(59)
End of year	1,075	1,111	1,143	1,148	1,203
Renner department stores	54	49	35	21	--
Total department stores	1,129	1,160	1,178	1,169	1,203
Gross selling space (square feet in millions)	110.2	114.1	116.4	116.0	118.4
Sales ($ in millions)	$ 14,808	$ 14,585	$ 15,026	$ 15,226	$ 15,904
Sales per gross square foot/(1)/	133	127	130	130	134
Department stores including catalog desks					
Sales ($ in millions)	17,115	17,451	18,073	18,438	19,143
Sales per gross square foot/(1)/	154	153	155	156	157
Number of catalog units					
Department stores	1,068	1,107	1,141	1,145	1,200
Third-party merchants, outlet stores and freestanding sales centers	454	508	489	512	554
Drugstores	92	92	430	139	110
Total	1,614	1,707	2,060	1,796	1,864
Total catalog sales ($ in millions)	$ 3,349	$ 4,173	$ 4,290	$ 4,210	$ 4,229
Eckerd Drugstores					
Number of stores					
Beginning of year	2,640	2,898	2,756	2,778	2,699
Openings/(2)/	76	174	266	220	199
Acquisitions	2	6	163	36	200
Closings/(2)/	(77)	(438)	(287)	(278)	(320)
End of year	2,641	2,640	2,898	2,756	2,778
Gross selling space (square feet in millions)	27.2	27.0	29.2	27.6	27.4
Sales ($ in millions)	$ 13,847	$ 13,088	$ 12,427	$ 10,325	$ 9,663
Sales per gross square foot/(1)/	470	444	395	350	314

</TABLE>

/(1)/ Calculation includes the sales of stores, including relocated drugstores, that were open for a full year as of each year end.

/(2)/ Includes relocations of 57,136,208,175 and 127 drugstores in 2001, 2000, 1999, 1998 and 1997, respectively.

SUPPLEMENTAL DATA (UNAUDITED)

The following information is provided as a supplement to the Company's audited financial statements.

EBITDA BEFORE NON-COMPARABLE ITEMS. Earnings before interest, taxes, depreciation and amortization and non-comparable items (EBITDA before non-comparable items) is a key measure of cash flow generated and is provided as an alternative assessment of operating performance. It is not intended to be a substitute for generally accepted accounting principles (GAAP) measurements and may vary for other companies. For a discussion on the effects of non-comparable items, see pages 6 - 8 in Management's Discussion and Analysis.

The following calculation of segment EBITDA before the effects of non-comparable items includes segment operating profit before depreciation and amortization and non-comparable items. It includes credit operating results in 1999.

<TABLE>
<CAPTION>

($ in millions)	2001	2000	1999

<S> <C> <C> <C>

DEPARTMENT STORES AND CATALOG			
Segment operating profit/(1)/	$ 548	$ 254	$ 670
Depreciation and amortization	370	360	386
Non-comparable items	--	92	20
Credit operating results	--	--	313
Department Stores and Catalog segment EBITDA before the effects of non-comparable items	$ 918	$ 706	$ 1,389
ECKERD DRUGSTORES			
Segment operating profit/(loss)/(1)/	$ 208	$ (76)	$ 183
Depreciation and amortization	226	213	193
Non-comparable items	(6)	116	119
Eckerd Drugstores segment EBITDA before the effects of non-comparable items	$ 428	$ 253	$ 495
TOTAL SEGMENTS			
Segment operating profit/(1)/	$ 756	$ 178	$ 853
Depreciation and amortization	596	573	579
Non-comparable items	(6)	208	139
Credit operating results	--	--	313
Total segments EBITDA before the effects of non-comparable items	$ 1,346	$ 959	$ 1,884

</TABLE>

/(1)/ Segment operating profit/(loss) excludes net interest expense and credit operations and income taxes.

The table below reconciles income/(loss) from continuing operations to total segment EBITDA before the effects of non-comparable items:

($ in millions)	2001	2000	1999
Income/(loss) from continuing operations	$ 114	$ (568)	$ 174
Add back:			
Income taxes	89	(318)	104
Restructuring and other charges, net	21	488	169
Acquisition amortization	121	122	125
Net interest expense	386	427	607/(1)/
Other unallocated	25	27	(13)
Segment depreciation and amortization	596	573	579
Segment non-comparable items	(6)	208	139
Total segments EBITDA before the effects of non-comparable items	$ 1,346	$ 959	$ 1,884

/(1)/ Excludes credit operations

DEBT TO CAPITAL. The debt-to-capital percentage shown in the table below includes both debt recorded on the Company's consolidated balance sheets as well as off-balance sheet debt related to operating leases and securitized receivables.

($ in millions)	2001	2000	1999
Short-term investments net of short-term debt	$ (2,819)	$ (935)	$ (1,092)/(1)/
Long-term debt/(2)/	6,099	5,698	6,469
	3,280	4,763	5,377
Off-balance sheet debt:			
Present value of operating leases			
Department Stores and Catalog	794	838	907
Eckerd Drugstores	2,764	2,631	2,386
Securitization of receivables, net	200	--	--
Total debt	7,038	8,232	8,670
Consolidated equity	6,129	6,259	7,228
Total capital	$ 13,167	$ 14,491	$ 15,898
Debt to capital, including off-balance sheet debt	53.5%	56.8%	54.5%
Debt to capital	34.9%	43.2%	42.7%

/(1)/ Includes asset-backed certificates of $267 million.
/(2)/ Includes current maturities, capital lease obligations and other.

Management considers all on- and off- balance sheet debt in evaluating the Company's overall liquidity position and capital structure. As operating leases are a fundamental part of the Company's operations, management believes that this approach is the most realistic view of financial leverage. The more traditional debt to capital ratio is presented for comparison purposes.

The Company's debt-to-capital percentage improved in 2001 primarily as a result of the cash received from the sale of DMS assets. Cash received in October 2001 from the issuance of $650 million of convertible subordinated notes is offset by the increase in long-term debt. The Company's debt-to-capital ratio increased in 2000 due to the decline in consolidated equity as a result of the net loss recorded for the year.

CREDIT RATINGS. As of March 15, 2002, ratings were as follows:

	Long-term Debt	Commercial Paper
Moody's Investors Service, Inc.	Ba2	Not Prime
Standard & Poor's Ratings Services	BBB-	A3
Fitch Ratings	BB+	B

CORPORATE GOVERNANCE

The Company is aware that many of its stockholders are interested in matters of corporate governance. JCPenney shares this interest and is, and for many years has been, committed to assuring that the Company is managed in a way that is fair to all its stockholders and that allows its stockholders to maximize the value of their investment by participating in the present and future growth of JCPenney. The Corporate Governance Committee of the Board of Directors reviews developments in the governance area as they affect relations between the Company and its stockholders and makes recommendations to the full Board regarding such issues.

INDEPENDENT BOARD OF DIRECTORS. In keeping with its long-standing practice, the Company's Board continues to be an independent board under any reasonable definition. Nominees for directors are selected by a committee composed entirely of directors who are not Company employees. The wide diversity of expertise, experience and achievements that the directors possess in business, investments, large organizations and public affairs allows the Board to most effectively represent the interests of all the Company's stockholders.

INDEPENDENT COMMITTEES. The Audit Committee, Corporate Governance Committee, the Finance Committee and Human Resources and Compensation Committee, all standing committees of the Board of Directors, are composed entirely of directors who are not employees of the Company. These committees, as well as the entire Board, consult with, and are advised by, outside consultants and experts in connection with their deliberations as needed.

EXECUTIVE COMPENSATION. A significant portion of the cash compensation received by the Company's executive officers consists of performance incentive compensation payments derived from compensation plan "values." The amounts of these plan values are directly related to the sales and earnings of the Company and consequently, vary from year to year based upon Company performance. The total compensation package for the Company's executive officers is set by the Human Resources and Compensation Committee, which is composed entirely of directors who are not employees of the Company and which receives the advice of independent outside consultants.

Please refer to the Company's 2002 Proxy Statement for a report from the Company's Human Resources and Compensation Committee describing how compensation determinations are made.

CONFIDENTIAL VOTING. The Company has a long-standing confidential voting policy. Under this policy, all proxy (voting instruction) cards, ballots and vote tabulations, including telephone and internet voting, that identify the particular vote of a stockholder are kept secret from the Company, its directors, officers and employees. Proxies are returned directly to the tabulator, who receives and tabulates the proxies. The final tabulation is inspected by inspectors of election who are independent of the Company, its directors, officers and employees. The identity and vote of a stockholder is not disclosed to the Company, its directors, officers or employees, or any third party except (1) to allow the independent election inspectors to certify the results of the vote; (2) as necessary to meet applicable legal requirements and to assert or defend claims for or against the Company; (3) in the event of a proxy solicitation based on an opposition proxy statement filed, or required to be filed, with the Securities and Exchange Commission; or (4) in the event a stockholder has made a written comment on such material.

CORPORATE CITIZENSHIP

COMMUNITY RELATIONS. The Company remains committed to investing in community programs that are important to its customers and its employees. Our commitment focuses on three major endeavors. JCP is a contributor to JCPenney Afterschool Fund, a charitable organization committed to providing children with high-quality after school programs. Our major support of community health and welfare issues is through our support of local United Ways nationwide. And we annually recognize our associates' personal volunteer endeavors through our James Cash Penney Awards for Community Service. A more complete review of JCPenney's community relations efforts is available on-line at http://www.jcpenney.net/company/commrel. Eckerd continues to be one of the top five national retail sponsors of the Childrens' Miracle Network (CMN). Since 1987, through the annual Miracle Balloon campaign and a variety of local fundraising efforts, our stores, our associates and our customers have donated over $15 million to help children treated at CMN hospitals.

DIVERSITY. JCPenney has been a corporate member of the National Minority Supplier Development Council (NMSDC) since 1972 and continues to invest in the NMSDC's Business Consortium Fund, which makes loans to minority-owned businesses. The Company is a founding member of the Women's Business Enterprise National Council. In 2001, the Company's purchases from minority-owned and women-owned businesses totaled $338 million and $275 million, respectively.

ENVIRONMENTAL AFFAIRS. Our commitment to doing business in a responsible manner includes a determination to make environmental, health and safety considerations an important factor in corporate decision making and policy. Copies of "Matters of Principle: JCPenney and Environmental Responsibility" and "JCPenney Community Partners" may be obtained as indicated on the inside back cover of this Annual Report.

OTHER CORPORATE INFORMATION

<TABLE>
<CAPTION>

Equal employment opportunity	Total Employed		% Female		% Minority	
	2001	1997	2001	1997	2001	1997
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Officials, managers and professionals	28,349	30,123	48.6%	47.6%	19.8%	16.8%
Management trainees	340	356	51.5%	70.5%	21.5%	32.0%
Sales workers	117,463	140,919	82.8%	84.1%	27.8%	25.0%
Office and clerical workers	33,411	41,170	86.0%	87.2%	25.5%	22.1%
Technicians, craft workers, operatives, laborers and service workers	50,350	44,658	72.4%	67.1%	33.1%	30.5%
Total	229,913	257,226	76.7%	77.3%	27.6%	24.5%

</TABLE>

EQUAL EMPLOYMENT OPPORTUNITY. The Company adheres to a policy of equal employment opportunity. The above employment information summary represents employees of JCP and its subsidiaries, excluding persons employed in Puerto Rico and in foreign countries. The information delineates female and minority representation in major job categories.

SUPPLIER LEGAL COMPLIANCE. JCPenney has a comprehensive and effective program for promoting compliance with labor and other laws in the factories used by its suppliers in the United States and abroad. This program is described in "The JCPenney Supplier Legal Compliance Program," which may be obtained as indicated on the inside back cover of this Annual Report.

ANNUAL MEETING. The Company's Annual Meeting of Stockholders will be held at 10:00 a.m. CDT Friday, May 17,2002, at the Company's Home Office located at 6501 Legacy Drive, Plano, Texas, 75024. You are cordially invited to attend. The Annual Report and Proxy Statement, including a request for proxies, were mailed to stockholders on or about April 10,2002.

EXHIBIT 21

SUBSIDIARIES OF THE REGISTRANT

Set forth below is a list of certain direct and indirect subsidiaries of the Company as of April 1, 2002. All of the voting securities of each named subsidiary are owned by the Company or by another subsidiary of the Company.

Subsidiaries

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

Separate financial statements are filed for J. C. Penney Funding Corporation, which is a consolidated subsidiary, in a separate Annual Report on Form 10-K.

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

Exhibit 23

INDEPENDENT AUDITORS' CONSENT

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

We consent to incorporation by reference in the Registration Statements on Form S-8 (Nos. 33-28390, 33-66070, 33-66072, 333-33343, 333-27329, 333-45536, 333-62066, 333-73140) and Form S-3 (Nos. 333-57019 and 333-74122) of J. C. Penney Company, Inc. of our reports dated February 21, 2002, relating to the consolidated balance sheets of J. C. Penney Company, Inc. and Subsidiaries as of January 26, 2002, and January 27, 2001, and the related consolidated statements of operations, stockholders' equity, and cash flows and the financial statement schedule for each of the years in the three-year period ended January 26, 2002, which reports are included or incorporated by reference in the Annual Report on Form 10-K of J. C. Penney Company, Inc. for the year ended January 26, 2002.

/S/ KPMG LLP

Dallas, Texas
April 25, 2002

EXHIBIT 24

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS THAT each of the undersigned directors and officers of J. C. PENNEY COMPANY, INC., a Delaware corporation ("Company"), which will file with the Securities and Exchange Commission, Washington, D.C. ("Commission"), under the provisions of the Securities Act of 1933, as amended, (i) one or more Registration Statements, or amendments thereto, on Form S-3 (or any appropriate form then in effect) for the registration of debt securities issued by J. C. Penney Corporation, Inc. ("Corporation") (which may include debt securities, together with warrants or other rights to purchase or acquire debt securities) and shares of Common Stock of 50 cent par value of the Company, including the associated rights to purchase shares of Series A Junior Participating Preferred Stock, without par value, of the Company, ("Common Stock") upon conversion, if any, of such debt securities into Common Stock; (ii) one or more Registration Statements on Form S-4 (or any appropriate form then in effect) for the registration of the exchange of certain debt securities (which may include debt securities, together with warrants or other rights to purchase or otherwise acquire debt securities) originally issued by Corporation (the Registration Statements referred to in Sections (i) and (ii) above hereinafter collectively called the "Registration Statements"), and (iii) under the provisions of the Securities Exchange Act of 1934, as amended, its Annual Report on Form 10-K for the 52 weeks ended January 26, 2002, hereby constitutes and appoints W. J. Alcorn, R. B. Cavanaugh, and C. R. Lotter, and each of them, his or her true and lawful attorneys-in-fact and agents, with full power to each of them to act without the others, for him or her and in his or her name, place, and stead, in any and all capacities, to sign (x) said Registration Statements, which are about to be filed, and any and all subsequent amendments to said Registration Statements (including, without limitation, any and all post-effective amendments thereto), and (y) said Annual Report, which is about to be filed, and any and all subsequent amendments to said Annual Report ("Annual Report"), and to file said Registration Statements and Annual Report so signed, and any and all subsequent amendments thereto (including, without limitation, any and all post-effective amendments thereto) so signed, with all exhibits thereto, and any and all documents in connection therewith, and to appear before the Commission in connection with any matter relating to said Registration Statements and Annual Report, hereby granting to the attorneys-in-fact and agents, and each of them, full power and authority to do and perform any and all acts and things requisite and necessary to be done in and about the premises as fully and to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that such attorneys-in-fact and agents, or any of them, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned have executed this Power of Attorney effective as of the 4th day of March, 2002.

/s/ A. I. Questrom	/s/ R. B. Cavanaugh
A. I. Questrom Chairman of the Board and Chief Executive Officer (principal executive officer); Director	R. B. Cavanaugh Executive Vice President and Chief Financial Officer (principal financial officer)
/s/ W. J. Alcorn	/s/ M. A. Burns
W. J. Alcorn Senior Vice President and Controller (principal accounting officer)	M. A. Burns Director
/s/ T. J. Engibous	/s/ K. B. Foster
T. J. Engibous Director	K. B. Foster Director
/s/ V. E. Jordan, Jr.	

V. E. Jordan, Jr. J. C. Pfeiffer
Director Director

/s/ A. W. Richards /s/ L. H. Roberts
- ------------------------------------- -----------------------------------
A. W. Richards L. H. Roberts
Director Director

/s/ R. G. Turner /s/ C. S. Sanford, Jr.
- ------------------------------------- -----------------------------------
R. G. Turner C. S. Sanford, Jr.
Director Director

Exhibit 99(b)

- --

J. C. PENNEY FUNDING CORPORATION

2001 ANNUAL REPORT

- --

<TABLE>
<CAPTION>

J. C. Penney Funding Corporation 2001 Annual Report

Financial Highlights ($ in millions)

For the Year	2001	2000	1999
<S>	<C>	<C>	<C>
Net income	$ 0	$ 5	$ 46
Fixed charges - times earned	-	1.52	1.52
Commercial paper and Line of Credit Debt			
Volume	$ 0	$ 1,801	$ 17,165
Peak outstanding	$ 0	$ 842	$ 3,582
Average outstanding	$ 0	$ 193	$ 2,475
At Year End			
Loans to JCPenney	$ 1,238	$ 1,240	$ 1,588
Short Term Debt	$ 0	$ 0	$ 330
Equity of JCPenney	$ 1,238	$ 1,238	$ 1,233

</TABLE>

Table of Contents

<TABLE>
<S> <C>

</TABLE>

J. C. Penney Funding Corporation ("Funding") is a wholly-owned subsidiary of J. C. Penney Corporation, Inc. ("JCPenney"). The business of Funding consists of financing a portion of JCPenney's operations through loans to JCPenney. The loan agreement between Funding and JCPenney provides for unsecured loans to be made by Funding to JCPenney. Each loan is evidenced by a revolving promissory note and is payable upon demand in whole or in part as may be required by Funding. Copies of Funding's loan agreement with JCPenney are available upon request.

To assist in financing the operations of JCPenney, Funding from time to time issues commercial paper through Credit Suisse First Boston Corporation, J.P. Morgan Securities Inc., Merrill Lynch Money Markets Inc., and Morgan Stanley Dean Witter to corporate and institutional investors in the domestic market. No commercial paper was issued during 2001. The commercial paper is guaranteed by JCPenney on a subordinated basis. The commercial paper was rated "A3" by Standard & Poor's Ratings Services, "Not Prime" by Moody's Investors Service, Inc., and "B" by Fitch Ratings as of March 15, 2002.

Funding had no short-term debt outstanding as of January 26, 2002 nor as of January 27, 2001.

Income is derived primarily from earnings on loans to JCPenney and is designed to produce earnings sufficient to cover interest expense at a coverage ratio of at least one and one-half times.

As a result of there being no commercial paper issuance or outstanding amounts in fiscal 2001, no earnings coverage was required resulting in no income or expense for the year. Net income was $5 million in 2000 and $46 million in 1999. Interest expense was $13 million in 2000 compared with $137 million in 1999. Interest earned from JCPenney was $20 million in 2000 compared to $208 million in 1999.

Commercial paper borrowings averaged $193 million in 2000 compared to $2,475 million in 1999. The average interest rate on commercial paper was 6.7 per cent for fiscal 2000 and 5.5% for 1999.

At year-end 2001, the balance of the Loan to JCPenney was $1,238 million as compared with $1,240 million at the end of the prior year.

A committed bank credit line is available to Funding and JCPenney in the form of a $1.5 billion, five-year revolving credit facility, which expires November 21, 2002. No borrowings have been made under this facility.

JCPenney's liquidity continued to strengthen during 2001 with $2.8 billion in cash and short-term investments as of January 26, 2002. The strong liquidity position is a result of the following: (1) improved profitability of operations, which generated approximately $200 million of free cash flow (operating cash flow after capital expenditures and dividends); (2) the sale of the assets of J.C. Penney Direct Marketing Services, Inc. which netted $1.1 billion in after-tax proceeds; (3) the issuance of $650 million aggregate principal amount of JCPenney's 5% Convertible Subordinated Notes, which generated $630 million in cash proceeds, net of transaction fees; and (4) the establishment of the Eckerd managed care receivable securitization program, which generated $200 million of proceeds. Management believes that the current cash position is adequate to cover debt maturities over the next several years.

As a result of JCPenney's strong liquidity position, it is not anticipated that any external financing will be required in 2002 to fund JCPenney's operating cash needs.

<TABLE>
<CAPTION>
Statements of Income J. C. Penney Funding Corporation
($ in millions)

For the Year	2001	2000	1999
<S>	<C>	<C>	<C>
Interest income from JCPenney	$ 0	$ 20	$ 208

Interest expense	0	13	137
Income before income taxes	0	7	71
Income taxes	0	2	25
Net income	$ 0	$ 5	$ 46

<CAPTION>
Statements of Reinvested Earnings
($ in millions)

	2001	2000	1999
<S>	<C>	<C>	<C>
Balance at beginning of year	$ 1,093	$ 1,088	$ 1,042
Net income	0	5	46
Balance at end of year	$ 1,093	$ 1,093	$ 1,088

</TABLE>

See Notes to Financial Statements on page 7

<TABLE>
<CAPTION>
Balance Sheets J. C. Penney Funding Corporation
(In millions except share data)

	2001	2000
<S>	<C>	<C>
Assets		
Loans to JCPenney	$ 1,238	$ 1,240
Liabilities and Equity of JCPenney		
Current Liabilities		
Short term debt	$ 0	$ 0
Due to JCPenney	0	2
Total Current Liabilities	0	2
Equity of JCPenney		
Common stock (including contributed capital), par value $100:		
Authorized, 750,000 shares - issued and outstanding, 500,000 shares	145	145
Reinvested earnings	1,093	1,093
Total Equity of JCPenney	1,238	1,238
Total Liabilities and Equity of JCPenney	$ 1,238	$ 1,240

</TABLE>

See Notes to Financial Statements on page 7

<TABLE>
<CAPTION>
Statements of Cash Flows J. C. Penney Funding Corporation
($ in millions)

For the Year	2001	2000	1999
<S>	<C>	<C>	<C>
Operating Activities			
Net income	$ 0	$ 5	$ 46
Decrease (Increase) in loans to JCPenney	2	348	1,541
(Decrease) Increase in amount due to JCPenney	(2)	(23)	7
	$ 0	$ 330	$ 1,594
Financing Activities			
(Decrease) Increase in short term debt	$ 0	$ (330)	$ (1,594)
Supplemental Cash Flow Information			
Interest paid	$ 0	$ 13	$ 137
Income taxes paid	$ 2	$ 25	$ 19

</TABLE>

See Notes to Financial Statements on page 7

Independent Auditors' Report J. C. Penney Funding Corporation

To the Board of Directors of
J. C. Penney Funding Corporation:

We have audited the accompanying balance sheets of J. C. Penney Funding Corporation as of January 26, 2002 and January 27, 2001, and the related statements of income, reinvested earnings, and cash flows for each of the years in the three-year period ended January 26, 2002. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of J. C. Penney Funding Corporation as of January 26, 2002 and January 27, 2001, and the results of its operations and its cash flows for each of the years in the three-year period ended January 26, 2002 in conformity with accounting principles generally accepted in the United States of America.

/s/ KPMG LLP

Dallas, Texas
February 21, 2002

Notes to Financial Statements

Nature of Operations
- --------------------
J. C. Penney Funding Corporation ("Funding") is a wholly-owned subsidiary of J. C. Penney Corporation, Inc. ("JCPenney"). The principal business of Funding consists of financing a portion of JCPenney's operations through loans to JCPenney. To finance its operations, Funding issues commercial paper, which is guaranteed by JCPenney on a subordinated basis, to corporate and institutional investors in the domestic market. Funding has, from time to time, issued long term debt in public and private markets in the United States and abroad.

Definition of Fiscal Year

Funding's fiscal year ends on the last Saturday in January. Fiscal 2001 ended January 26, 2002, fiscal 2000 ended January 27, 2001, and fiscal 1999 ended January 29, 2000. All three years contained 52 weeks.

Commercial Paper Placement
Funding places commercial paper solely through dealers. The average interest rate on commercial paper was 6.7% for fiscal 2000 and 5.5% for 1999. No commercial paper was issued during fiscal 2001.

Summary Of Accounting Policies
- -----------------------------

Income Taxes
Funding's taxable income is included in the consolidated federal income tax return of JCPenney. Income taxes in Funding's statements of income are computed as if Funding filed a separate federal income tax return.

Use of Estimates
Funding's financial statements have been prepared in conformity with generally accepted accounting principles. Certain amounts included in the financial statements are estimated based on currently available information and management's judgment as to the outcome of future conditions and circumstances. While every effort is made to ensure the integrity of such estimates, including the use of third party specialists where appropriate, actual results could differ from these estimates.

Loans to JCPenney
- -----------------
Funding and JCPenney are parties to a Loan Agreement which provides for unsecured loans, payable on demand, to be made from time to time by Funding to JCPenney for the general business purposes of JCPenney, subject to the terms and conditions of the Loan Agreement. Under the terms of the Loan Agreement, Funding and JCPenney agree upon a mutually-acceptable earnings coverage of Funding's interest and other fixed charges. The earnings to fixed charges ratio has historically been at least one and one-half times.

Committed Bank Credit Facility
- ------------------------------
A committed bank credit line is available to Funding and JCPenney in the form of a $1.5 billion, five-year revolving credit facility, which expires November 21, 2002. No borrowings have been made under this facility.

Fair Value of Financial Instruments
- ----------------------------------
The fair value of short-term debt (commercial paper) at January 27, 2001 and January 29, 2000 approximates the amount reflected on the balance sheets due to its short average maturity.

The fair value of loans to JCPenney at January 26, 2002, and January 27, 2001 also approximates the amount reflected on the balance sheets because the loan is payable on demand.

Five Year Financial Summary J. C. Penney Funding Corporation
($ in millions) (Unaudited)

<TABLE>
<CAPTION>

At Year End	2001	2000	1999	1998	1997
<S>	<C>	<C>	<C>	<C>	<C>
Capitalization					
Short term debt					
Commercial paper	$ 0	$ 0	$ 330	$ 1,924	$ 1,416
Credit line advance	0	0	0	0	0
Total short term debt	0	0	330	1,924	1,416

Equity of JCPenney	1,238	1,238	1,233	1,187	1,152
	-------	-------	-------	-------	-------
Total capitalization	$ 1,238	$ 1,238	$ 1,563	$ 3,111	$ 2,568
	=======	=======	=======	=======	=======
Committed bank credit facilities ...	$ 1,500	$ 1,500	$ 3,000	$ 3,000	$ 3,000
For the Year					
Income	$ 0	$ 20	$ 208	$ 160	$ 193
Expenses	$ 0	$ 13	$ 137	$ 106	$ 127
Net income	$ 0	$ 5	$ 46	$ 35	$ 43
Fixed charges - times earned	-	1.52	1.52	1.52	1.52
Peak short term debt	$ 0	$ 842	$ 3,582	$3,117	$ 4,295
Average debt	$ 0	$ 193	$ 2,475	$1,938	$ 2,247
Average interest rates	-	6.7%	5.5%	5.5%	5.6%

</TABLE>

Quarterly Data J. C. Penney Funding Corporation
($ in millions) (Unaudited)

<TABLE>
<CAPTION>

	First			Second			Third			Fourth		
	2001	2000	1999	2001	2000	1999	2001	2000	1999	2001	2000	1999
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Income	$ 0	5	47	0	0	47	0	11	63	0	4	51
Expenses	$ 0	3	31	0	0	31	0	7	41	0	3	34
Income before taxes ..	$ 0	2	16	0	0	16	0	4	22	0	1	17
Net income	$ 0	1	10	0	0	10	0	3	15	0	1	11
Fixed charges - times earned	-	1.52	1.52	-	1.52	1.52	-	1.52	1.52	-	1.52	1.52

</TABLE>

Commercial Paper Sales Policies J. C. Penney Funding Corporation

Funding issues commercial paper through dealer-placed commercial paper programs. JCPenney's commercial paper sales policies are the same as those used by each respective dealer. For more information on those policies, contact Ms. Stephanie Gentile at Credit Suisse First Boston Corporation, 212-325-4713, Mr. Todd Nordstrom at J.P. Morgan Securities Inc., 212-834-5471, Mr. Robert J. Little at Merrill Lynch Money Markets Inc., 212-449-0349, or Mr. Michael Maita at Morgan Stanley Dean Witter, 212-761-1928.

RATINGS

Ratings as of March 15, 2002 were as follows:

Standard & Poor's Ratings Services	A3
Moody's Investors Service, Inc.	Not Prime
Fitch Ratings	B

RATES

Rates and information are available nationally through Credit Suisse First Boston Corporation, J.P. Morgan Securities Inc., Merrill Lynch Money Markets Inc., or Morgan Stanley Dean Witter.

Board of Directors
Michael P. Dastugue
Chairman of the Board
J. C. Penney Funding Corporation
Vice President and Treasurer
J. C. Penney Corporation, Inc.

Officers

Michael P. Dastugue
Chairman of the Board

Michael D. Porter
President

William J. Alcorn
Vice President and Controller

Frank N. Napoli
Vice President and Treasurer

Charles R. Lotter
Secretary

Jeffrey J. Vawrinek
Assistant Secretary