Exhibit 10.3

EXECUTION COPY

CN RESCISSION AGREEMENT

This CN RESCISSION AGREEMENT, dated as of August 25, 2004 (this "**Agreement"**), is made and entered into between CVS Corporation, a Delaware corporation, CVS Pharmacy, Inc., a Rhode Island corporation ("**CVS"**), J.C. Penney Company, Inc., a Delaware corporation ("**JCP"**) and the entities listed on **Schedule A** attached hereto (the "**CVS CN Entities"**).

W I T N E S S E T H:

WHEREAS, CVS Corporation, CVS and JCP (together with the Sellers listed on Exhibit A attached thereto) are parties to an Asset Purchase Agreement dated as of April 4, 2004 (as amended or modified from time to time, the "**Asset Purchase Agreement"**); and

WHEREAS, pursuant to the Asset Purchase Agreement, CVS and the CVS CN Entities acquired the CN Real Estate Interests of JCP and its affiliates relating to the Business in Colorado and New Mexico; and

WHEREAS, CVS Corporation, CVS and JCP have agreed to rescind the transfer of CN Real Estate Interests under the Asset Purchase Agreement by transferring the CN Real Estate Interests to JCP and/or to any affiliates of JCP designated by JCP by written notice to CVS ("**JCP CN Entities"**) and treat the same as Excluded Assets and Excluded Liabilities under the Asset Purchase Agreement; and

WHEREAS, on the terms and subject to the conditions contained herein, CVS and the CVS CN Entities desire to transfer and assign to JCP and/or the JCP CN Entities, and JCP and the JCP CN Entities are willing to accept the transfer and assignment from CVS and the CVS CN Entities of and to assume, the CN Real Estate Interests.

NOW, THEREFORE, CVS Corporation, CVS, the CVS CN Entities and JCP hereby agree as follows:

Section 1.01. *Definitions*. Capitalized terms not otherwise defined herein shall have the meaning(s) set forth in the Asset Purchase Agreement. In addition, the following term(s) have the following meaning(s):

"CN Expenses" mean all costs, expenses, taxes or other liabilities to be taken into account in the calculation of Aggregate CN Net Real Estate Liability pursuant to the terms of Section 4.29 of the Asset Purchase Agreement (before giving effect to this Agreement).

Section 1.02. *Payment and Transfer.* In consideration of a one time payment of $21,451,323.51 (such payment represents an aggregate amount of $21,000,000 *plus* all proceeds from disposition of CN Real Estate Interests actually received by CVS and/or its affiliates as of the date of this Agreement *minus* all CN Expenses borne and paid by CVS and/or its affiliates as of the date of this Agreement (including the September rent relating to CN Real Estate Interests contemplated to be paid by CVS)) by CVS to JCP (paid promptly after the execution of this Agreement by wire transfer of immediately available funds to an account designated by JCP), CVS, the CVS CN Entities and JCP hereby agree:

(a) As promptly as possible after the execution of this Agreement, CVS and the CVS CN Entities will transfer and assign to JCP and/or the JCP CN Entities all of the CN Real Estate Interests (and all assets and liabilities relating thereto or arising therefrom as the same may exist as of the date of this Agreement) and JCP will and/or will cause the JCP CN Entities to accept and assume (A) the CN Real Estate Interests (and all assets and liabilities relating thereto or arising there from as the same may exist as of the date of this Agreement), (B) the agreements listed on **Schedule B** attached hereto entered into by CVS and/or its affiliates in connection with the CN Real Estate Interests, any disposition thereof, or in preparation for or furtherance of disposition thereof, and (C) all liability for CN Expenses, listed on **Schedule C** attached hereto, incurred as of the date of this Agreement but not paid by CVS and/or its affiliates prior to the date of this Agreement. The parties will enter into one or more deeds, bills of sale, endorsements, assignments and other instruments of conveyance and assignment or assumption as the parties and their respective counsel shall deem reasonably necessary or appropriate to give effect to the provisions of this Section 1.02(a).

(b) CVS represents and warrants (A) that it is the sole member of each of the CVS CN Entities and **Schedule A** is the true and correct list of the CVS CN Entities and their jurisdictions of incorporation or formation, (B) that CVS has the power and authority to execute this Agreement on behalf of the CVS CN Entities, (C) that neither it nor any of its affiliates has entered or will enter into any agreement of the type referred to under Section 1.02(a)(B) above other than the Asset Purchase Agreement and the agreements listed on **Schedule B** attached hereto (true and complete copies of which **Schedule B** agreements have been delivered to JCP) and (D) that **Schedule C** attached hereto is a true and complete list of all liabilities for CN Expenses incurred as of the date of this Agreement but not paid by CVS and/or its affiliates on or prior to the date of this Agreement and that neither it nor any of its affiliates will incur any liabilities for CN Expenses after the date of this Agreement. CVS Corporation and CVS will jointly and severally indemnify JCP and the JCP CN Entities for any cost, including cost of counsel, related to or arising out of breach of the representations and warranties in this Section 1.02(b).

(c) Any transfer taxes arising from any action taken pursuant to Section 1.02(a) shall be paid by CVS. Each party to this Agreement shall bear its own legal expenses related to the transactions contemplated by this Agreement.

(d) Notwithstanding anything to the contrary contained in the Asset Purchase Agreement, as between CVS and JCP, (A) the parties will determine and interpret the Asset Purchase Agreement as if the CN Trigger had not occurred prior to the Closing, and the CN Real Estate Interests (and all assets and liabilities relating thereto or arising therefrom as the same may exist as of the date of this Agreement or after the date of this Agreement) will be deemed to be Excluded Assets and Excluded Liabilities under the Asset Purchase Agreement, and (B) JCP s indemnity obligations under the Asset Purchase Agreement will be determined after giving effect to Section 1.02(d)(A) of this Agreement.

(e) Any proceeds from disposition of CN Real Estate Interests actually received by CVS and/or its affiliates on and after the date of this Agreement shall promptly be paid over to JCP.

Section 1.03. *Further Assurances.* Each party shall take, or cause to be taken, all actions and to do, or cause to be done, all things necessary or desirable under applicable laws and regulations, and take all such other actions and to execute all such documents, certificates, agreements and other writings as such party may reasonably be requested to take or execute by the other party from time to time, consistent with the terms of this Agreement, to effectuate the provisions and purposes of this Agreement and the transactions contemplated hereby and to ensure that each party properly and fairly receives all the benefits of the bargain under this Agreement.

Section 1.04. *Governing Law; Venue.* This Agreement shall be governed by, and construed in accordance with, the Laws of the State of New York, applicable to agreements made and to be performed entirely within such state. Each of the parties hereto (a) hereby submits itself to the personal jurisdiction of any appropriate state or federal court in the Borough of Manhattan of the City of New York in the State of New York in the event any dispute arises out of this Agreement or any of the transactions contemplated hereby, (b) shall not attempt to deny or defeat such personal jurisdiction by motion or other request for leave from any such court, and (c) shall not bring any action relating to this Agreement or any of the transactions contemplated hereby in any other court. Each party agrees that service of process on such party as provided in Section 8.04 of the Asset Purchase Agreement shall be deemed effective service of process on such party.

Section 1.05. *Waiver Of Jury Trial.* EACH PARTY HERETO IRREVOCABLY WAIVES ITS RIGHTS TO A JURY TRIAL WITH RESPECT TO ANY ACTION OR CLAIM ARISING OUT OF ANY DISPUTE IN CONNECTION WITH THIS AGREEMENT OR ANY OF THE TRANSACTIONS CONTEMPLATED HEREBY.

Section 1.06. *Counterparts; Effectiveness; Third Party Beneficiaries.* This Agreement may be executed in one or more counterparts, all of which shall be considered one and the same instrument and shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other parties. Until and unless each party has received a counterpart hereof signed by the other parties hereto, this Agreement shall have no effect and no party shall have any right or obligation hereunder. This Agreement is not intended to confer upon any Person other than the parties hereto and their respective affiliates any rights or remedies hereunder.

Section 1.07. *Effect of this Agreement.* Except as expressly modified hereby, the rights and obligations of the parties to the Asset Purchase Agreement shall remain unchanged and in full force and effect.

Section 1.08. *Captions.* The captions contained in the Agreement are for convenience of reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

IN WITNESS WHEREOF, CVS, CVS Corporation, CVS CN Entities and JCP have caused this Agreement to be signed by their respective officers thereunto duly authorized, all as of the date first written above.

CVS CORPORATION
By: /s/ Philip C. Galbo
Name: Philip C. Galbo
Title: Senior Vice President and Treasurer

CVS PHARMACY, INC.
By: /s/Philip C. Galbo
Name: Philip C. Galbo
Title: Senior Vice President and Treasurer

CVS CN ENTITIES
By: CVS PHARMACY, INC., as their Sole Member
By: /s/ Philip C. Galbo
Name: Philip C. Galbo
Title: Senior Vice President and Treasurer

J.C. PENNEY COMPANY, INC.
By: /s/ Jeffrey J. Vawrinek
Name: Jeffrey J. Vawrinek
Title: Assistant Secretary

Exhibit 10.2

FIRST AMENDMENT TO
STOCK PURCHASE AGREEMENT

This FIRST AMENDMENT TO STOCK PURCHASE AGREEMENT (this "**Amendment**") is entered into and effective as of July 30, 2004 (the **"Effective Date**"), by and among The Jean Coutu Group (PJC) Inc., a Quebec corporation (the "**Purchaser**"), J. C. Penney Company, Inc., a Delaware corporation (the "**Parent**"), and TDI Consolidated Corporation, a Delaware corporation (the "**Seller**"). Purchaser, Parent and Seller are collectively referred to herein as the "**Parties**."

RECITALS:

A. The Parties entered into that certain Stock Purchase Agreement, dated as of April 4, 2004, by and among the Parties (the "Agreement"), whereby the Seller will sell to the Purchaser the shares of certain of Seller's subsidiaries that own and operate a chain of retail drugstores and related businesses.

B. The Parties mutually desire to amend the Agreement as more fully set forth in this Amendment.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties hereby agree as follows:

1. Definitions. Terms with initial capital letters used but not otherwise defined herein have the meanings ascribed to such terms in the Agreement.

2. Escrow Closing. Section 1.5 of the Agreement is renumbered as Section 1.5(a) and a new subsection (b) and a new subsection (c) are added thereto to read in their entirety as follows:

(b) If Bank of America, N.A. (the "**Escrow Agent**"), the Purchaser, the Parent and the Seller enter into an agreement (the "**Escrow Agreement**") in form and substance satisfactory to them, then notwithstanding the provisions of Section 1.5(a), the Closing shall occur in the following manner and the Closing Date shall be as specified below:

(i) Upon execution and delivery of the Escrow Agreement by the parties thereto (which will only occur if (i) the conditions set forth in Sections 5.1(a) and (b) and Sections 5.3(c), (d) and (e) of this Agreement have been satisfied or waived in writing, and (ii) this Agreement has not been terminated or abandoned as provided in Article VI hereof), (x) the Purchaser shall deliver the Estimated Purchase Price, as adjusted pursuant to Section 1.8 of the Agreement, and any amounts payable after the Closing pursuant to Section 1.7 of the Agreement by depositing or causing to be deposited an aggregate amount equal to the sum of the Estimated Purchase Price as so adjusted and any amounts payable pursuant to Section 1.7 into one or more accounts (the "Accounts") maintained by it or the Collateral Agent (collectively with the Purchaser, the "**Assignors**") for such purpose at the Escrow Agent and assigning or causing to be assigned, effective as of the Closing (in the case of the Estimated Purchase Price, as so adjusted) or effective immediately following the Closing (in the case of any amounts payable pursuant to Section 1.7), all of the Assignors' rights, title and interest, including any liabilities and obligations, with respect to the Accounts and all monies and funds deposited therein to Seller free and clear of any Liens or Encumbrances, (y) the Purchaser shall make all of the other Closing deliveries specified in Section 1.6(a) of this Agreement to the Escrow Agent as provided in the Escrow Agreement and (z) the Parent and the Seller shall deliver the items specified in Sections 1.6(b)(ii) through (xii) of this Agreement to the Escrow Agent as provided in the Escrow Agreement. The foregoing deliveries are referred to as "**Transfers-in-Escrow**." The documents to be delivered as provided in subclause (y) shall be placed in a box (the "**Seller Box**") that is sealed in the presence of a representative (or counsel to) the Parent and the Seller and labeled for delivery to the Seller. The documents to be delivered as provided in subclause (z) shall be placed in a box (the "**Purchaser Box**") that is sealed in the presence of a representative (or counsel to) the Purchaser and labeled for delivery to the Purchaser.

(ii) Following the Transfers-in-Escrow, (i) the conditions set forth in Article V of this Agreement will be deemed to be satisfied and (ii) each party to this Agreement will be deemed to have waived any right it may have to terminate this Agreement pursuant to Article VI hereof.

(iii) At 11:59 p.m. Eastern time on July 31, 2004, pursuant to the terms of the Escrow Agreement, the Accounts and all monies and funds deposited therein will be assigned automatically and without further action to the Seller, and the Escrow Agent (i) shall deliver the Seller Box to the Seller and (ii) shall deliver the Purchaser Box to the Purchaser. The foregoing assignment and deliveries by the Escrow Agent will be deemed to conclude consummation of the "Closing."

(iv) Seller shall deliver the items specified in Section 1.6(b)(i) to the Purchaser c/o Fried, Frank, Harris, Shriver & Jacobson LLP as bailee and agent for the Collateral Agent. Such delivery shall be made at the offices of Jones Day, 222 East 41st Street, New York, New York 10017, at or immediately after the Seller's receipt of the Estimated Purchase Price, as adjusted pursuant to Section 1.8 of the Agreement, and the delivery of the Seller Box and the Purchaser Box.

(v) The interest accrued on the Estimated Purchase Price from the Transfers-in-Escrow until 11:59 p.m. Eastern time on July 31, 2004 shall be for the account of the Purchaser, irrespective of when such interest is actually paid, and the Parent shall deliver or cause to be delivered an amount equal to such interest to the Purchaser as soon as practicable, but in any event within five business days, after the Closing Date.

(vi) The Closing of this Agreement shall be deemed to occur at 11:59 p.m. Eastern time on July 31, 2004. The Closing Date shall be deemed to be July 31, 2004. For the avoidance of doubt, the results of operations of the Northern Business on July 31, 2004 shall be credited to the account of the Seller and the Parent.

(c) If the Escrow Agreement is terminated prior to the Closing, the Closing will occur as described in Section 1.5(a) of this

Agreement and the deemed satisfaction of conditions and waiver of termination rights set forth in Section 1.5(b)(ii) shall be deemed revoked.

3. Amendment to Section 1.6(b)(v). Section 1.6(b)(v) of the Agreement is hereby amended and restated in its entirety to read as follows:

> "(v) certificates of existence for each TDI Company and for each TDI Subsidiary from the Secretary of State of the jurisdiction in which such entity is incorporated or organized as of a date not earlier than fifteen (15) business days prior to the Closing Date and accompanied by bring down certificates from the Secretary of State of Delaware for the TDI Companies dated as of the Closing Date, unless the Secretary of State of Delaware is not open for business on the Closing Date, in which case the bring down certificates shall be dated not earlier than the second day prior to the Closing Date on which the Secretary of State of Delaware is open for business;"

4. Amendments to Section 2.2(d)(i) of the Disclosure Schedule. Item 1(c) of Section 2.2(d)(i) of the Disclosure Schedule is hereby amended and restated in its entirety to read as follows:

"(c) Eckerd Corporation

> (i) Authorized Capital — 1,000 shares of common stock, $.01 par value per share (ii) Issued and Outstanding Shares — 140 issued and outstanding shares of common stock (iii) Holder of Record — TDI Consolidated Corporation"

Item 1(g) of Section 2.2(d)(i) of the Disclosure Schedule is hereby amended and restated in its entirety to read as follows:

"(g) EDC Licensing, Inc.

> (i) Authorized Capital — 1,000 shares of common stock, $1.00 par value per share (ii) Issued and Outstanding Shares — 10 issued and outstanding shares of common stock (iii) Holder of Record — Eckerd Corporation"

5. Amendment to Section 2.2(l) of the Disclosure Schedule. Section 2.2(l) of the Disclosure Schedule is hereby amended to include the following statement between "item 3" and "Equipment Leases":

> "4. The UCC-1 Financing Statements filed in connection with the J.C. Penney/GE Capital Credit Card arrangement."

6. Amendment to Section 8.3. Section 8.3 of the Agreement is hereby amended by adding the following definitions thereto:

> "**Collateral Agent**" means Deutsche Bank Trust Company Americas as collateral agent for the lenders under the Credit Agreement, dated as of July 30, 2004, among the Purchaser, certain of its subsidiaries and the agents and lenders party thereto.

7. Counterparts; Effectiveness; Third Party Beneficiaries. This Amendment may be executed in one or more counterparts, all of which shall be considered one and the same instrument and shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other parties. Until and unless each party has received a counterpart hereof signed by the other parties hereto, this Agreement shall have no effect and no party shall have any right or obligation hereunder. This Agreement is not intended to confer upon any Person other than the parties hereto any rights or remedies hereunder.

8. Effect of Amendments. Except as expressly amended hereby, the Agreement shall remain unchanged. The Agreement, as amended hereby, shall remain in full force and effect.

9. Captions. The captions contained in this Amendment are for convenience of reference purposes only and shall not affect in any way the meaning or interpretation of this Amendment.

[signature page follows]

IN WITNESS WHEREOF, the Purchaser, the Parent and the Seller have caused this Amendment to be signed by their respective officers thereunto duly authorized, all as of the date first written above.

THE JEAN COUTU GROUP (PJC) INC.

By:/s/ Francois J. Coutu
Name: Francois J. Coutu
Title: President and Chief Executive Officer

THE JEAN COUTU GROUP (PJC) INC.

By:/s/ Michel Coutu
Name: Michel Coutu
Title: Director and President and CEO of The Jean Coutu Group (PJC) U.S.A. Inc.

J. C. PENNEY COMPANY, INC.

TDI CONSOLIDATED CORPORATION

By: /s/ C. R. Lotter	By:/s/ Sal Saggese
Name:Charles R. Lotter	Name:Sal Saggese
Title: Executive Vice President, Secretary and General Counsel	Title:Vice President

[SIGNATURE PAGE TO FIRST AMENDMENT TO STOCK PURCHASE AGREEMENT]

Exhibit 10.1

AMENDMENT AND WAIVER NO. 1
TO ASSET PURCHASE AGREEMENT

AMENDMENT AND WAIVER NO. 1 dated as of July 30, 2004 (this "**Agreement**") among CVS Pharmacy, Inc., a Rhode Island corporation (the "**Purchaser**"), CVS Corporation, a Delaware corporation ("**CVS**"), J.C. Penney Company, Inc., a Delaware corporation (the "**Parent**"), and the Sellers listed on **Exhibit A** attached hereto (including, Eckerd Corporation, a Delaware corporation ("**Eckerd**"), collectively, the "**Sellers**"), to the Asset Purchase Agreement dated as of April 4, 2004 (the "**Asset Purchase Agreement**") among Purchaser, CVS, Parent and the Sellers.

W I T N E S S E T H:

WHEREAS, the Purchaser, CVS, the Parent and the Sellers desire to amend certain provisions of the Asset Purchase Agreement, clarify certain of their respective rights and obligations under the Asset Purchase Agreement and make provisions relating to the Closing, upon the terms and subject to the conditions hereinafter set forth;

NOW, THEREFORE, the Purchaser, CVS, the Parent and the Sellers hereby agree as follows:

Section 1. *Defined Terms.* Capitalized terms not otherwise defined herein shall have the meaning set forth in the Asset Purchase Agreement.

Section 2. *Delivery of Estimated Purchase Price.* The Sellers hereby direct the Purchaser to deliver the Estimated Purchase Price on their behalf as follows: $1,353,093,211.94 (the "**JCP Capital Amount**") to JCP Capital Corporation ("**JCP Capital**") and the remainder (the "**TDI Amount**") to TDI Consolidated Corporation ("**TDI**").

Section 3. *Escrow Closing.* Section 1.14 of the Asset Purchase Agreement is renumbered as Section 1.14(a) and a new subsection (b) and a new subsection (c) are added thereto to read in their entirety as follows:

(b) If Bank of America, N.A. (the "**Escrow Agent**"), Purchaser, CVS, Parent, Sellers and the Stock Purchaser (together with other appropriate parties) enter into an agreement (the "**Escrow Agreement**") in form and substance satisfactory to them, then notwithstanding the provisions of Section 1.14(a), the Closing shall occur in the following manner and the Closing Date shall be as specified below:

(i) Upon execution and delivery of the Escrow Agreement by the parties thereto (which will only occur if (i) the conditions set forth in Section 5.01 and Section 5.03(b) of this Agreement have been satisfied or waived in writing, and (ii) this Agreement has not been terminated or abandoned as provided in Article 6 hereof), (x) the Purchaser shall deliver the Estimated Purchase Price by depositing the JCP Capital Amount into an account (the "**JCP Capital Account**") maintained by it for such purpose at the Escrow Agent and depositing the TDI Amount into one or more accounts (the "**TDI Accounts**") maintained by it for such purpose at the Escrow Agent and assigning, effective as of the Closing, all of its rights, title and interest, including any liabilities and obligations, with respect to, and all monies and funds deposited in, the JCP Account to JCP Capital and the TDI Accounts to TDI, in each case, free and clear of Liens and Encumbrances, (y) except as provided in Section 1.14(b)(vi), the Purchaser shall make all of the other Closing deliveries specified in Section 1.15(a) of this Agreement to the Escrow Agent as provided in the Escrow Agreement; and (z) except as provided in Section 1.14(b)(vi), Parent and Sellers shall deliver the items specified in Sections 1.15(b) of this Agreement to the Escrow Agent as provided in the Escrow Agreement. The foregoing deliveries are referred to as "**Transfers-in-Escrow**." The documents to be delivered as provided in subclause (y) shall be placed in a box (the "**Sellers Box**") that is sealed in the presence of a representative of (or counsel to) Parent and labeled for delivery to Parent. The documents to be delivered as provided in subclause (z) shall be placed in a box (the "**Purchaser Box**") that is sealed in the presence of a representative of (or counsel to) Purchaser and labeled for delivery to Purchaser.

(ii) Following the Transfers-in-Escrow, (i) the conditions set forth in Article 5 of this Agreement will be deemed to be satisfied and (ii) each party to this Agreement will be deemed to have waived any right it may have to terminate this Agreement pursuant to Article 6 hereof.

(iii) At 11:58 p.m. Eastern Time on July 31, 2004, pursuant to the terms of the Escrow Agreement, the JCP Capital Account and all monies and funds deposited therein will be assigned automatically and without further action to JCP Capital and the TDI Accounts and all monies and funds deposited therein will be assigned automatically and without further action to TDI, and the Escrow Agent (i) shall deliver the Sellers Box to a representative of (or counsel to) Parent on behalf of Sellers and (ii) shall deliver the Purchaser Box to a representative of (or counsel to) Purchaser. The foregoing assignment and deliveries by the Escrow Agent will be deemed to conclude consummation of the "Closing."

(iv) The Closing of this Agreement shall be deemed to occur at 11:58 p.m. Eastern Time on July 31, 2004. The Closing Date shall be deemed to be July 31, 2004.

(v) Any interest accrued and paid on the Estimated Purchase Price from the Transfers-in-Escrow through and including the Closing Date shall be for the account of the Purchaser, and the Parent shall reimburse the Purchaser an amount equal to such interest promptly, and in any event within five business days, following the Closing Date.

(vi) Parent and Sellers shall deliver the items specified in Section 1.15(b)(iii) to Purchaser at the Closing. The Purchaser shall deliver the items specified in Section 1.15(a)(viii) of the Disclosure Schedule, and the Parent and Sellers shall deliver the limited or special warranty deeds specified in Section 1.15(b)(x)(A), a copy of the certificates described in Section 1.15(b)(xii), special

warranty deeds conveying title to the CN Real Property Interests held in fee by any Seller and the items specified in Section 1.15(b)(vii) of the Disclosure Schedule, in escrow to LandAmerica or, in the case of the special or limited warranty deed and copy of the certificate described in Section 1.15(b)(xii) with respect to property number 2419 (Quincy, FL), to MacFarlane Ferguson & McMullen, in each case pursuant to instructions mutually agreed upon by Parent, Sellers and Purchaser.

(c) If the Escrow Agreement is terminated prior to Closing, the Closing will occur as described in Section 1.14(a) of this Agreement and the deemed satisfaction of conditions and waiver of termination rights set forth in Section 1.15(b)(ii) shall be deemed revoked.

Section 4. *Certain Title Company Deliveries*. A new Section 1.15(a)(viii) is inserted into the Disclosure Schedule with the following entries: "Executed counterparts to the Lease Assignment and Assumption Agreements with respect to the following Designated Leased Properties: 0013/0013J (Orlando, FL), 4120 (Orlando, FL), 0300C (Conroe, TX) and 0800F (Garland, TX) and with respect to the assignment of reservation with respect to property number 1513 (Hollywood, FL)" and a new Section 1.15(b)(vii) is inserted into the Disclosure Schedule with the following entry: "Executed counterparts to the Lease Assignment and Assumption Agreements and the assignment of reservation listed in Section 1.15(a)(viii) of the Disclosure Schedule."

Section 5. Deliveries at the Closing.

(a) Section 1.15(a)(ix) of the Asset Purchase Agreement is hereby amended in its entirety to read as follows:

"(ix) executed counterparts to one or more Management Agreements pursuant to which the Purchaser will manage the Southern Business under the DEA Powers of Attorney, substantially in the form attached hereto as Exhibit G (the "**Management Agreements**")."

(b) Section 1.15(b)(viii) is amended in its entirety to read as follows:

"(viii) executed counterparts to the Management Agreements,"

Section 6. Direct Transfer of Certain Intellectual Property Rights.

(a) Section 1.01(r) of the Asset Purchase Agreement is hereby amended by inserting the words "including, without limitation, the Intellectual Property Rights listed on Section 1.01(r) of the Disclosure Schedule" before the words "except as otherwise set forth in the Framework Agreement".

(b) A new Section 1.01(r) is inserted into the Disclosure Schedule with the following entries: "Any rights of the Sellers' and any Seller's Subsidiary's in the marks, "EHS", "EPS", "EXPRESS PHARMACY SERVICES", "POSTSCRIPT" and "TDI"."

(c) Section 4.30 of the Asset Purchase Agreement is hereby amended in its entirety to read as follows:

Section 4.30 *EDC Licensing, Inc.* Except as otherwise provided in the Framework Agreement or the Eckerd Transition Services Agreement, the Parent shall cause EDC Licensing, Inc., a Delaware corporation, to transfer the Intellectual Property Rights it holds that are associated solely with the Southern Business (including, without limitation, the Intellectual Property Rights listed on Section 1.01(r) of Disclosure Schedule to the extent owned by EDC Licensing, Inc.) to Eckerd prior to the Closing Date.

Section 7. *Eckerd.com.* Section 1.01(c) of the Asset Purchase Agreement is hereby amended by adding the phrase "and in the eckerd.com business (including patient profiles, customer lists, phone numbers and other data associated with such prescription files)" after the words "Southern Business".

Section 8. *Prescription Files.* Section 4.10 of the Asset Purchase Agreement is amended to read in its entirety as follows:

"4.10. Prescription Files. The Sellers will deliver the Prescription Files to the Purchaser by making their systems with the Prescription File records on them available to the Purchaser and by electronically transferring the Prescription File records to the Purchaser as the applicable stores convert to the Purchaser's pharmacy systems.

Section 9. *Representations.* Sections 3.07 and 3.08 of the Asset Purchase Agreement are hereby amended to read in their entirety as follows:

"Section 3.07. *Investment Intent*. The Southern Entity Shares will be acquired by the Purchaser or one or more affiliates of the Purchaser (the "Stock Designee") for the Stock Designee's own account without a view to a distribution or resale thereof. The Stock Designees understand that the Southern Entity Shares may only be sold or otherwise disposed of by the Stock Designee pursuant to a registration or an exemption therefrom under the Securities Act, and any other applicable securities Laws.

"Section 3.08. *Sophistication of the Purchaser*. Each Stock Designee is an "accredited investor" within the meaning of Rule 501 under the Securities Act, has knowledge and experience in financial and business matters and is capable of evaluating the merits and risks of the transactions contemplated by this Agreement. The Parent and the Sellers have provided the Stock Designees the opportunity to ask questions of the officers and management of the Parent, the Sellers and the TDI Companies with respect to the business conducted by the Southern Entities. In making their decision to enter into this Agreement and to consummate the transactions contemplated hereby, the Stock Designees have relied solely on their own independent investigation, analysis and evaluation of the Southern Entities and the Southern Business and the express representations, warranties and other undertakings of the Parent and the Sellers contained herein."

Section 10. *Representations.* Employee and Benefit Matters. Section 4.13(b)(i) of the Asset Purchase Agreement is hereby amended by:

(a) Deleting the words "and Section 4.13(b)(iv)" in the first full sentence and replacing the comma between "Section 4.13(b)(ii)" and "Section 4.13(b)(iii)" in the first full sentence with an "and"; and

(b) adding the following sentence after the first full sentence:

"For the avoidance of doubt, any liability for compensation, retention pay, contingent separation pay, or uninsured or unfunded benefits (including, without limitation, backpay, underpayments or any penalties or fines relating thereto) arising under any applicable law or any contract or plan and attributable to current Southern Business Employees for any period that ends prior to the Closing Date (or with respect to any retention or contingent separation pay arrangement in place on or prior to the Closing Date, any liability payable on or after the Closing Date) and not set forth on the Balance Sheet shall be an Excluded Liability under this Agreement."

Section 11. *Rollovers Of 401(k) Plan.* Section 4.13 of the Asset Purchase Agreement is hereby amended by deleting Section 4.13(c)(ii) and replacing it in its entirety as follows:

"(ii) On or after the Closing Date, Purchaser shall cause a tax-qualified defined contribution plan established or maintained by Purchaser or one of its affiliates to accept, if elected by Transferred Employees, individual rollovers in cash of Transferred Employees' distributions from the Eckerd 401(k) Savings Plan, subject to the terms and conditions established by Purchaser and applicable law."

Section 12. *JCP Telemarketing Agreement*. Section 4.28 of the Asset Purchase Agreement is hereby amended to insert at the end of the first sentence "and the fee rate schedule shall be amended as agreed to by the parties thereto and Purchaser."

Section 13. *CN Trigger Matters*. Section 4.29 of the Asset Purchase Agreement is hereby amended to read it in its entirety as follows:

"Section 4.29. *Sharing of Net Real Estate Costs in CN States*. If the CN Trigger has occurred prior to Closing, subject to the terms set forth below, Purchaser shall, after Closing, be responsible for terminating and/or disposing of all the CN Real Estate Interests existing after the Closing. The net aggregate cash cost (after giving effect to lease termination/project buyout/breakage costs; rent payments; property maintenance expenses (including, but not limited to, common area maintenance charges and utilities), improvements (reasonably necessary for lease or sale of the applicable property) and Taxes; legal, brokerage and other transaction fees and expenses; any Tax imposed with respect to the termination or disposition of any CN Real Estate Interest; proceeds from the sale of fee

or leasehold interests; costs reimbursable to developers, etc.) (A) incurred or paid by Parent or the Sellers (in the case of any such transaction, with the written consent of Purchaser) and (B) incurred or paid by the Purchaser after the Closing (the sum of (A) and (B), the "Aggregate CN Net Real Estate Liability")) of such terminations and dispositions (disregarding the effect of Section 1.13) will be borne 50% by each of Parent and Purchaser, until Purchaser (or its affiliates) have borne $20 million in the aggregate, and thereafter will be borne 100% by Parent (i.e., the aggregate amount of Aggregate CN Net Real Estate Liability to be borne by Purchaser and its affiliates is $20 million). The amount of Aggregate CN Net Real Estate Liability not required to be borne by Purchaser will be an Excluded Liability under this Agreement. Purchaser will keep Parent reasonably informed of the status and terms of such terminations and dispositions. Each party will seek in good faith to mitigate the Aggregate CN Net Real Estate Liability. Section 1.13 shall not apply to CN Real Estate Interests. Any party incurring any costs or expenses forming part of the Aggregate CN Net Real Estate Liability shall furnish reasonable documentation to the other party as soon as reasonably practicable after such documentation becomes available. Promptly following the first anniversary of the Closing Date and promptly after the end of each calendar quarter thereafter, (i) the parties will reconcile the amounts received or incurred and payments made by each of them, (ii) the net amount then owed by one to the other pursuant to the foregoing provisions of this Section 4.29 shall thereupon automatically be due and payable, and (iii) such net amount shall be promptly paid by the owing party to the other party."

Section 14. *Genplus Managed Care.*. Section 8.03(a)(liv) of the Asset Purchase Agreement is hereby amended by replacing the word "Genplus" with "GenPlus".

Section 15. *Disclosure Schedule.*. The Disclosure Schedule of the Asset Purchase Agreement is hereby amended as follows:

(a) *Southern Site Leases*. Section 1.01(d) of the Disclosure Schedule to the Asset Purchase Agreement is hereby amended to read in its entirety as set forth on **Exhibit B** hereto;

(b) *Owned Real Property*. Section 1.01(e) of the Disclosure Schedule to the Asset Purchase Agreement is hereby amended to read in its entirety as set forth on **Exhibit C** hereto;

(c) *Southern Business Employees*. Section 2.02(q) of the Disclosure Schedule to the Asset Purchase Agreement is hereby amended to delete the asterisk following the following agreements set forth in such section of the Disclosure Schedule: (i) Employment Agreement with LaVoice H. Kallestad (formerly LaVoice Howard), (ii) Employment Agreement with Raymond W. Loeffler and (iii) Employment Agreement with Ernest Zost.

(d) *Southern Distribution Centers*. Section 8.03(a)(lvii) of the Disclosure Schedule to the Asset Purchase Agreement is hereby amended to read in its entirety as set forth on **Exhibit D** hereto; and

(e) *Southern Stores*. Section 8.03(a)(lix) of the Disclosure Schedule to the Asset Purchase Agreement is hereby amended to read in its entirety as set forth on **Exhibit E** hereto.

Section 16. *Waiver of Certain Deliveries.* Purchaser hereby waives the Parent's and/or Sellers' requirement to deliver a Title Policy with respect to location number 0500D, located at 133 N. Ambassador Caffrey Parkway, Scott, Louisiana and location number 1513, located at 3300 N. 28th Terrace, Hollywood, Florida.

Section 17. *TSA Amendments.* (a) The Form of Penney Transition Services Agreement, attached as Exhibit C1 to the Asset Purchase Agreement, is hereby amended by inserting a new "Section 2.08" as follows:

> "Section 2.08. Utilization of Software. The Providers and the Recipients shall cooperate with each other and shall make commercially reasonable efforts to obtain any applicable license or other rights with respect to computer software that reside on any computer acquired as part of the Purchased Assets. Recipients agree to be responsible for the payment of all incremental out-of-pocket costs of such license or other rights. The Providers agree to reasonably cooperate with Recipients to minimize the cost of obtaining any such license or similar right."

(b) The Form of Eckerd Transition Services Agreement, attached as Exhibit C3 to the Asset Purchase Agreement is hereby amended to read in its entirety as set forth on **Exhibit F** hereto.

Section 18. *Exhibit Amendments.*

(a) The Assignment and Assumption Agreement, attached as Exhibit E to the Asset Purchase Agreement, is hereby amended to read in its entirety as set forth in **Exhibit G** hereto.

(b) The Assignment and Assumption of Real Property Leases, attached as Exhibit F to the Asset Purchase Agreement, is hereby amended to read in its entirety as set forth in **Exhibit H** hereto.

(c) The Management Agreement, attached as Exhibit G to the Asset Purchase Agreement, is hereby amended to read in its entirety as set forth in **Exhibit I** hereto.

(d) The Power of Attorney, attached as Exhibit H to the Asset Purchase Agreement, is hereby amended to read in its entirety as set forth in **Exhibit J** hereto.

Section 19. *Governing Law; Venue.* This Agreement shall be governed by, and construed in accordance with, the Laws of the State of New York, applicable to agreements made and to be performed entirely within such state. Each of the parties hereto (a) hereby submits itself to the personal jurisdiction of any appropriate state or federal court in the Borough

of Manhattan of the City of New York in the State of New York in the event any dispute arises out of this Agreement or any of the transactions contemplated hereby, (b) shall not attempt to deny or defeat such personal jurisdiction by motion or other request for leave from any such court, and (c) shall not bring any action relating to this Agreement or any of the transactions contemplated hereby in any other court. Each party agrees that service of process on such party as provided in Section 8.04 of the Asset Purchase Agreement shall be deemed effective service of process on such party.

Section 20. *Waiver Of Jury Trial.* EACH PARTY HERETO IRREVOCABLY WAIVES ITS RIGHTS TO A JURY TRIAL WITH RESPECT TO ANY ACTION OR CLAIM ARISING OUT OF ANY DISPUTE IN CONNECTION WITH THIS AGREEMENT OR ANY OF THE TRANSACTIONS CONTEMPLATED HEREBY.

Section 21. *Counterparts; Effectiveness; Third Party Beneficiaries.* This Agreement may be executed in one or more counterparts, all of which shall be considered one and the same instrument and shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other parties. Until and unless each party has received a counterpart hereof signed by the other parties hereto, this Agreement shall have no effect and no party shall have any right or obligation hereunder. This Agreement is not intended to confer upon any Person other than the parties hereto any rights or remedies hereunder.

Section 22. *Effect of Amendments.* Except as expressly amended hereby, the Asset Purchase Agreement shall remain unchanged. The Asset Purchase Agreement, as amended hereby, shall remain in full force and effect.

Section 23. *Captions.* The captions contained in the Agreement are for convenience of reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

[Signature page follows]

IN WITNESS WHEREOF, CVS, the Purchaser, the Parent and the Sellers have caused this Agreement to be signed by their respective officers thereunto duly authorized, all as of the date first written above.

CVS CORPORATION

By:/s/ David B. Rickard
Name: David B. Rickard
Title: Executive Vice President

CVS PHARMACY, INC.

By:/s/ David B. Rickard
Name: David B. Rickard
Title: Executive Vice President

J. C. PENNEY COMPANY, INC.
By:/s/ C. R. Lotter
Name: Charles R. Lotter
Title: Executive Vice President, Secretary and General Counsel

ECKERD CORPORATION
By:/s/ R. E. Lewis
Name: Robert E. Lewis
Title: Senior Vice President, Secretary and General Counsel

THRIFT DRUG, INC
By:/s/ R. E. Lewis
Name: Robert E. Lewis
Title: Senior Vice President, Secretary and General Counsel

GENOVESE DRUG STORES, INC.
By:/s/ R. E. Lewis
Name: Robert E. Lewis
Title: Senior Vice President, Secretary and General Counsel

ECKERD FLEET, INC.
By:/s/ R. E. Lewis

Name: Robert E. Lewis
Title: Senior Vice President, Secretary and General Counsel

EXHIBIT A

Name	**Jurisdiction**
Eckerd Corporation	Delaware
ThriftDrug, Inc.	Delaware
Genovese Drug Stores, Inc.	Delaware
Eckerd Fleet, Inc.	Florida

Exhibit 10.5

EMPLOYMENT AGREEMENT

This **EMPLOYMENT AGREEMENT** (the "Agreement"), made in the City of Plano and the State of Texas, dated as of May 1, 2005, between J. C. Penney Corporation, Inc., a Delaware corporation (hereinafter called the "the Employer"), and Robert B. Cavanaugh (hereinafter called the "the Employee").

WHEREAS, the Employer desires to ensure that it retains the Employee's management and executive services as its Executive Vice President and Chief Financial Officer;

WHEREAS, in order to induce the Employee to continue to serve in such positions, the Employer desires to provide the Employee with compensation and other benefits on the terms and conditions set forth in this Agreement; and

WHEREAS, the Employee is willing to accept such employment and perform services for the Employer, on the terms and conditions hereinafter set forth;

NOW THEREFORE, in consideration of the promises and of the mutual covenants herein contained, it is agreed as follows:

1. Employment, Position and Duties.

1.1 The Employer agrees to continue to employ the Employee and the Employee hereby agrees to continue to undertake employment upon the terms and conditions herein set forth.

1.2 During the Term (as hereafter defined), the Employee will serve as Chief Financial Officer, or such other position as may be assigned by the Employer's Chief Executive Officer, and shall perform such duties consistent with such position as are determined and directed by the Employer's Chief Executive Officer. The Employee shall devote his full working time, attention and ability to the business of the Employer, including, if applicable, its subsidiaries and/or affiliates to which the Employee may have been assigned responsibilities; provided, however, that it shall not be a violation of this Agreement for the Employee to (i) devote reasonable periods of time to charitable and community activities and, with the approval of the Employer, industry or professional activities, and (ii) manage personal business interests and investments, subject to Section 8, so long as such activities do not materially interfere with the performance of the Employee's responsibilities under this Agreement.

1.3 Unless otherwise agreed by the Employer and the Employee, throughout the term of this Agreement, the Employee's principal offices shall be located in Plano, Texas. The Employee shall undertake normal business travel on behalf of the Employer, the reasonable expenses of which shall be paid by the Employer pursuant to Section 4.

2. Term of Employment.

2.1 *Initial Term.* The Employee's employment under this Agreement ("Term") shall commence on May 1, 2005 (the "Start Date") and, subject to the provisions of this Agreement, shall terminate (the "Termination Date") on the earlier of (i) the third anniversary of the Start Date (the "Initial Term") or (ii) termination of the Employee's employment pursuant to Section 6.

2.2 *Renewal Term.* This Agreement shall expire automatically at the end of the Initial Term, unless extended as provided in this Section 2.2. Within 60 days after the second anniversary of the Initial Term or any Renewal Term (as defined below), Employer shall notify Employee regarding (i) whether the Agreement shall be extended and (ii) the terms and conditions, if any, for such extension. Any such additional extension period ("Renewal Term") shall be deemed to be part of the Term for purposes of this Agreement. If the Employer and the Employee have not entered into a written agreement to extend this Agreement within 45 days after such notice, then at the Employer's election the Employer may release the Employee from his duties during the remaining Term of the Agreement in accordance with and subject to the conditions in Sections 6.4 and 7.3. If Employee is not so released and completes the then remaining Term of the Agreement, Employee shall become employed at-will upon the expiration of such Term as provided for in Section 2.3. Nothing in this Section 2.2 shall be deemed to grant a right of continued employment to the Employee upon expiration of the Initial Term or any Renewal Term.

2.3 *Post-Term At-Will Employment.* If (i) this Agreement is not terminated pursuant to Section 6, and (ii) neither party has otherwise terminated the Employee's employment, upon expiration of the Term (including any Renewal Term), this Agreement shall expire and the Employee shall become employed at-will and may be terminated from employment at any time, without notice or cause. In the event this Agreement expires and the Employee becomes employed at-will, the Employee shall not be entitled to any severance or other termination compensation or benefits under this Agreement, and the Employee's employment shall be subject to those policies and procedures that the Employer may adopt and change in its discretion from time to time. Nothing in this Section 2.3 shall be deemed to grant a right of continued employment to the Employee upon expiration of the Term, and the Employer may terminate the Employee's employment upon expiration of the Term without any further notice and financial obligation to the Employee under Section 7.

3. Compensation

3.1 *Salary.* In consideration of the services of the Employee during the Term, the Employer shall pay the Employee salary at an annualized rate of $615,250.00 (“Base Salary”) (less applicable withholding for taxes and authorized deductions) in accordance with the Employer’s usual payroll policies. The Employee’s Base Salary shall be reviewed at least annually with the first review date being the March following the Start Date. Base Salary may be adjusted by action of the appropriate committee of the Employer’s Board of Directors or its delegate, and may be increased without the necessity of written amendment pursuant to Section 10.8. Notwithstanding the preceding, nothing in this Section 3.1 guarantees an annual increase in Base Salary.

3.2 *Annual Incentive Compensation.* The Employee shall be eligible to participate in the Management Incentive Compensation Program (the “Comp Plan”), as set out in Exhibit A hereto.

3.3 *Grand Total Earnings.* The Employee’s “Grand Total Earnings” shall mean an amount equal to Base Salary plus annual incentive under the Comp Plan with a target of 50 per cent of Base Salary.

4. Expenses

During the Term the Employee shall be allowed reimbursement of reasonable expenses necessary for the performance of Employee’s duties in accordance with the policies of the Employer.

5. Employee Benefits.

5.1 *Benefits*. During the Term, the Employee shall be entitled to the benefits generally provided or made available to senior employees of the Employer, including group medical insurance benefits (subject in each case, however, to (i) eligibility and (ii) modification or elimination in accordance with the Employer’s standard policies as in effect from time to time).

5.2 *Vacation and Paid Leave.*. The Employee will be eligible for five (5) weeks of vacation each year.

6. Termination of Employment Prior to Expiration of Term.

6.1 *Death.* In the event of the Employee’s death during the Term, the Employee’s employment shall terminate, and the Employer shall pay or provide to the Employee’s beneficiaries or estate, as appropriate, as soon as practicable after the Employee’s death, the amounts and benefits provided for in Section 7.1.

6.2 *Permanent Disability*. If the Employee becomes totally and permanently disabled (as defined in the Employer’s Long-Term Disability Plan) during

the Term (“Permanent Disability”), the Employer may terminate the Employee’s employment on written notice thereof in accordance with Section 10.5, and the Employer shall provide to the Employee the amounts and benefits provided for in Section 7.1.

6.3 *Termination by the Employer for Cause*. During the Term the Employer may terminate the Employee’s employment for “Cause.” “Cause in this Agreement means (i) an intentional act of fraud, embezzlement, theft or any other material violation of law that occurs during or in the course of Employee’s employment with Employer; (ii) intentional damage to Employer’s assets; (iii) intentional disclosure of Employer’s confidential information contrary to Employer’s policies; (iv) material breach of Employee’s obligations under this Agreement; (v) intentional engagement in any competitive activity which would constitute a breach of Employee’s duty of loyalty or of Employee’s obligations under this Agreement; (vi) the willful and continued failure to substantially perform Employee’s duties for Employer (other than as a result of incapacity due to physical or mental illness); or (vii) intentional breach of any of Employer’s policies or willful conduct by Employee that is in either case demonstrably and materially injurious to Employer, monetarily or otherwise; provided, however, that termination for Cause based on clause (iv) shall not be effective unless the Employee shall have written notice from the Employer’s Chief Executive Officer in accordance with Section 10.5 (which notice shall include a description of the reasons and circumstances giving rise to such notice) not less than 30 days prior to the Employee’s termination and the Employee has failed after receipt of such notice to satisfactorily discharge the Employee’s duties. For purpose of this Section 6.3, an act, or a failure to act, shall not be deemed “willful” or “intentional” unless it is done, or omitted to be done, by Employee in bad faith or without a reasonable belief that Employee’s action or omission was in the best interest of Employer. Failure to meet performance standards or objectives, by itself, does not constitute “Cause.” “Cause” also includes any of the above grounds for dismissal regardless of whether Employer learns of it before or after terminating Employee’s employment.

6.4 *Termination by the Employer without Cause*. During the Term the Employer may terminate the Employee’s employment without Cause. “Without Cause” shall mean for any reason other than death, Permanent Disability or Cause, as provided for in Sections 6.1, 6.2 and 6.3. The Employee’s employment may be terminated by the Employer without Cause by delivery to the Employee of notice of termination in accordance with Section 10.5 not less than 30 days prior to termination.

6.5 *Termination by the Employee for Good Reason.* During the Term, the Employee may terminate his employment, without the Employer’s consent, for Good Reason. Good Reason shall mean (a) the Employer has breached any material provision of this

Agreement and within 30 days

after written notice thereof from the Employee in accordance with Section 10.5, the Employer fails to cure such breach; or (b) a successor or assign (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Employer fails to assume liability under the Agreement in accordance with Section 10.2.

6.6 *Termination by the Employee without Good Reason.* During the Term, the Employee may voluntarily terminate his employment upon 30 days' written notice (the "Notice Period") to the Employer in accordance with Section 10.5. The Employer may in its sole discretion elect to release the Employee from his duties prior to the expiration of the Notice Period, and pay Base Salary to the Employee for the remaining Notice Period. The Employer's election to release the Employee from his duties during the Notice Period shall not be deemed to be a constructive discharge of the Employee or termination without Cause, nor shall such release from duties accelerate the Employee's Termination Date or reduce the total time period during which the Employee must comply with the covenants contained in Section 8.

7. Termination Payments and Benefits..

7.1 *Death or Permanent Disability.* In the event of the death or Permanent Disability of the Employee, as soon as practicable, the Employer shall pay any (i) accrued and unpaid Base Salary and vacation to which the Employee was entitled as of the date of death or determination of Permanent Disability (collectively, the "Compensation Payments"), and (ii) the target annual incentive for the Comp Plan for the fiscal year in which the date of death or the determination of Permanent Disability occurs, prorated for the actual period of service for that fiscal year (the "Prorated Bonus"). The payment of any death benefits or disability benefits under any employee benefit or compensation plan that is maintained by the Employer for the Employee's benefit shall be governed by the terms of such plan.

7.2 *Termination by the Employer for Cause; Termination by the Employee without Good Reason.* In the event of the termination of the Employee by the Employer for Cause or by the Employee without Good Reason, the Employer shall pay the Compensation Payments to the Employee as soon as practicable or within the period required by law, and the Employee shall be entitled to no other compensation, except as otherwise due to the Employee under applicable law. The Employee shall not be entitled to the payment of any bonuses for any portion of the fiscal year in which such termination occurs.

7.3 *Termination by the Employer without Cause; Termination by the Employee with Good Reason.*

(i) *Form and Amount*. In the event of the termination of the Employee by the Employer without Cause or by the Employee with Good Reason, the Employer shall pay the Compensation Payments to the Employee as soon as practicable or within the period required by law. In addition, conditioned upon receipt of the Employee's written release of claims in such form as may be required by the Employer, the Employer shall pay or provide to the Employee (a) as severance pay, an aggregate amount equal to Grand Total Earnings, multiplied by the result obtained by dividing (x) the balance of the Term, measured in days, by (y) 365, with such aggregate amount to be paid in equal installments on the applicable payroll dates for the balance of the Term; (b) for 12 months following termination, outplacement services by a firm selected by the Employee at the expense of the Employer, in an amount up to $30,000, and (c) for 24 months following termination (the "COBRA Continuation Period") the continuation of group medical insurance benefits except as offset by benefits paid or provided by other sources as set forth in Section 7.6, or as prohibited by law.

(ii) *Maintenance of Benefits*. During the COBRA Continuation Period, the Employer shall use its best efforts to maintain its group medical insurance benefits in full force and effect for the continued benefit of the Employee or shall arrange to make available to the Employee group medical benefits substantially similar to those that the Employee would otherwise have been entitled to receive if the Employee's employment had not been terminated. For the COBRA Continuation Period, the Employer shall pay or reimburse the Employee for the COBRA premium.

(iii) *Forfeiture*. Notwithstanding the foregoing provisions of this Section 7, any right of the Employee to receive termination payments and benefits under Section 7 shall be forfeited to the extent of any amounts payable or benefits to be provided after a material breach of any covenant set forth in Section 8.

7.4 *Non-Eligibility For Other Company Separation Pay Benefits*. The Employee shall not be eligible for any payments under any severance program offered by the Employer.

7.5 *Employer's Right of Offset*. If the Employee is at any time indebted to the Employer, or otherwise obligated to pay money to the Employer for any

reason, the Employer, at its election, may offset amounts otherwise payable to the Employee under this Agreement, including, but without limitation, Base Salary and incentive compensation payments, against any such indebtedness or amounts due from the Employee to the Employer, to the extent permitted by law.

7.6 *Mitigation*. In the event of the termination of the Employee by the Employer without Cause, or by the Employee with Good

Reason, the Employee shall not be required to mitigate damages by seeking other employment or otherwise as a condition to receiving termination payments or benefits under this Agreement. No amounts earned by the Employee after the Employee's termination by the Employer without Cause or by the Employee with Good Reason, whether from self-employment, as a common law employee, or otherwise, shall reduce the amount of any payment or benefit under any provision of this Agreement. Notwithstanding the foregoing, the Employee's coverage under the Employer's group medical insurance as provided in Section 7.3(i) shall terminate as soon as the Employee becomes covered under any group medical plan made available by another employer. The Employee shall report to the Employer any such coverage actually received by the Employee.

7.7 *Resignations*. Except to the extent requested by the Employer, upon any termination of the Employee's employment with the Employer, the Employee shall immediately resign all positions and directorships with the Employer and each of its subsidiaries and affiliates.

8. Covenants and Representations of the Employee.

8.1 *Confidentiality*. During the Term, and in consideration for the Employee's agreement to enter into this Agreement, the Employer agrees that it will disclose to the Employee its confidential or proprietary information and trade secrets (together, the "Proprietary Information") to the extent necessary for the Employee to carry out his obligations under this Agreement. The Employee hereby covenants and agrees that the Employee shall not, without the prior written consent of the Employer, during the Term or at any time thereafter disclose to any person not employed by the Employer, or use in connection with engaging in competition with the Employer, any Proprietary Information of the Employer.

(i) It is expressly understood and agreed that the Employer's Proprietary Information is all nonpublic information relating to the Employer's business, including but not limited to information, plans and strategies regarding suppliers, pricing, marketing, customers, hiring and terminations, employee performance and evaluations, internal reviews and investigations, short term and

long range plans, acquisitions and divestitures, advertising, information systems, sales objectives and performance, as well as any other nonpublic information, the nondisclosure of which may provide a competitive or economic advantage to the Employer. Proprietary Information shall not be deemed to have become public for purposes of this Agreement where it has been disclosed or made public by or through anyone acting in violation of a contractual, ethical, or legal responsibility to maintain its confidentiality.

(ii) In the event the Employee receives a subpoena, court order or other summons that may require the Employee to disclose Proprietary Information, on pain of civil or criminal penalty, the Employee will promptly give notice of the subpoena or summons pursuant to Section 10.5 and provide the Employer an opportunity to appear at the Employer's expense and challenge the disclosure of its Proprietary Information, and the Employee shall provide reasonable cooperation to the Employer for purposes of affording the Employer the opportunity to prevent the disclosure of the Employer's Proprietary Information.

8.2 *Nonsolicitation of Employees*. The Employee hereby covenants and agrees that during the Term and for two years thereafter, the Employee shall not, without the prior written consent of the Employer, on the Employee's own behalf or on the behalf of any person, firm or company, directly or indirectly, attempt to influence, persuade or induce, or assist any other person in so persuading or inducing, any of the employees of the Employer (or any of its subsidiaries or affiliates) to give up his or her employment with the Employer (or any of its subsidiaries or affiliates), and the Employee shall not directly or indirectly solicit or hire employees of the Employer (or any of its subsidiaries or affiliates) for employment with any other employer.

8.3 *Noninterference with Business Relations.* The Employee hereby covenants and agrees that during the Term and for two years thereafter, the Employee shall not, without the prior written consent of the Employer, on the Employee's own behalf or on the behalf of any person, firm or company, directly or indirectly, attempt to influence, persuade or induce, or assist any other person in so persuading or inducing, any person, firm or company to cease doing business with, reduce its business with, or decline to commence a business relationship with, the Employer (or any of its subsidiaries or affiliates).

8.4 *Noncompetition*. It is recognized by the Employee and the Employer that the Employee's duties hereunder will require the receipt and creation of Proprietary Information, as defined in Section 8.1. The Proprietary Information has been and will continue to be developed by the Employer

and its subsidiaries and affiliates at substantial cost and constitutes valuable and unique property of the Employer. The Employee further acknowledges that due to the nature of the Employee's position, the Employee will have access to Proprietary Information affecting plans and operations in every location in which the Employer (and its subsidiaries and affiliates) does business or plans to do business throughout the world, and the Employee's decisions and recommendations on behalf of the Employer may affect its operations throughout the world. Accordingly, the Employee acknowledges that the foregoing makes it reasonably necessary for the protection of the Employer's business interests that the Employee not compete with the Employer or any of its subsidiaries or affiliates during the Term and for a reasonable and limited period thereafter, as provided below.

(i) The Employee covenants that during the Term of this Agreement and for a period of one year following the later of either a termination of employment pursuant to Section 6 or a termination of at-will employment following expiration of the Term, the Employee will not undertake work for a Competing Business, as defined in Section 8.4(ii), provided, however, that (a) in the case of a termination of employment pursuant to Section 6.4 or 6.5, the non-compete period shall not exceed the lesser of one year or the period for which the Employee is entitled to Compensation Payments, as provided in Section 7.3(i), and (b) in the case of a termination of at will employment following expiration of the Term, the non-compete period shall not exceed the lesser of one year or the period for which the Employee receives compensation payments as provided under any applicable Employer separation pay program. For purposes of this covenant, "undertake work for" shall include performing services, whether paid or unpaid, in any capacity, including as an officer, director, owner, consultant, employee, agent or representative, where such services involve the performance of similar duties or oversight responsibilities as those performed by the Employee during the 18-month period preceding the Employee's termination from the Employer for any reason.

(ii) As used in this Agreement, the term "Competing Business" shall mean any business that, at the time of the determination:

(A) operates (1) any retail department store, specialty store, or general merchandise store; (2) any retail catalog, telemarketing, or direct mail business; (3) any Internet-based or other electronic retailing business; (4) any other retail business that sells goods, merchandise, or services of the types sold by the Employer, including its divisions, affiliates, and licensees; or (5) any business that provides

buying office or sourcing services to any business of the types referred to in this Section 8.4(ii)(A);

(B) conducts any business of the types referred to in Section 8.4(ii)(A) in the United States or another country in which the Employer, including its divisions, affiliates, and licensees, conducts a similar business; and

(C) from any business(es) of the types referred to in Section 8.4(ii)(A), had aggregate net sales or revenues of $500,000,000 in the fiscal year preceding the determination or is reasonably expected to have aggregate net sales or revenues of $500,000,000 in either the current fiscal year or the next following fiscal year.

8.5 *Injunctive Relief.* If the Employee shall breach the covenants contained in this Section 8, the Employer shall have no further obligation to make any payment to the Employee pursuant to this Agreement and may recover from the Employee all such damages as it may be entitled to at law or in equity. In addition, the Employee acknowledges that any such breach is likely to result in immediate and irreparable harm to the Employer for which money damages are likely to be inadequate. Accordingly, the Employee consents to injunctive and other appropriate equitable relief without the necessity of bond in excess of $500.00 (five hundred dollars) upon the institution of proceedings therefor by the Employer in order to protect the Employer's rights hereunder.

8.6 *Representations of the Employee.* The Employee represents and warrants to the Employer that:

(i) (a) There are no restrictions, agreements or understandings whatsoever to which the Employee is a party that would prevent or make unlawful the Employee's execution of this Agreement or the Employee's employment under this Agreement, or that is or would be inconsistent, or in conflict with this Agreement or the Employee's employment under this Agreement, or would prevent, limit or impair in any way the performance by the Employee of the obligations under this Agreement; and (b) the Employee has disclosed to the Employer all restraints, confidentiality commitments or other employment restrictions that the Employee has with any other employer, person or entity.

(ii) Upon and after the Employee's termination or cessation of employment with the Employer, including any post-Term at-will employment, and until such time as no obligations of the Employee to the Employer hereunder exist, the Employee: (a) shall provide a complete copy of this Agreement to any

prospective employer or other person, entity or association in a Competing Business with whom or which the Employee proposes to be employed, affiliated, engaged, associated or to establish any business or remunerative relationship prior to the commencement thereof, provided that Employee shall first cause the compensation amounts hereunder to be deleted or not disclosed; and (b) shall notify the Employer of the name and address of any such person, entity or association prior to the Employee's employment, affiliation, engagement, association or the establishment of any business or remunerative relationship.

9. Survival. The expiration or termination of the Term shall not impair the rights or obligations of any party hereto that accrue hereunder prior to such expiration or termination, except to the extent specifically stated herein. In addition to the foregoing, the Employee's covenants and warranties contained in Section 8, and the parties' agreements under Section 10 shall survive the expiration of this Agreement and the termination of the Employee's employment, including any post-Term at-will employment.

10. Miscellaneous Provisions.

10.1 *Dispute Resolution.* Any dispute between the parties under this Agreement shall be resolved (except as provided below)

through informal arbitration by an arbitrator selected under the rules of the American Arbitration Association for arbitration of employment disputes (located in the city in which the Employer's principal executive offices are based) and the arbitration shall be conducted in that location under the rules of said Association. Each party shall be entitled to present evidence and argument to the arbitrator. The arbitrator shall have the right only to interpret and apply the provisions of this Agreement and may not change any of its provisions, except as expressly provided in Section 10.4 and only in the event Employer has not brought an action in a court of competent jurisdiction to enforce the covenants in Section 8. The arbitrator shall permit reasonable pre-hearing discovery of facts, to the extent necessary to establish a claim or a defense to a claim, subject to supervision by the arbitrator. The determination of the arbitrator shall be conclusive and binding upon the parties and judgment upon the same may be entered in any court having jurisdiction thereof. The arbitrator shall give written notice to the parties stating the arbitrator's determination, and shall furnish to each party a signed copy of such determination. The expenses of arbitration shall be borne equally by the Employer and the Employee or as the arbitrator equitably determines consistent with the application of state or federal law; provided, however, that the Employee's share of such expenses shall not exceed the maximum permitted by law. Any arbitration or action pursuant to this Section 10.1 shall be governed by and construed in accordance with the substantive laws of the State of Texas and, where applicable, federal law, without giving effect to the

principles of conflict of laws of such State. **The mandatory arbitration provisions of this Section 10.1 shall supersede in their entirety the J. C. Penney Alternative, a dispute resolution program generally applicable to employment terminations.**

Notwithstanding the foregoing, the Employer shall not be required to seek or participate in arbitration regarding any actual or threatened breach of the Employee's covenants in Section 8, but may pursue its remedies, including injunctive relief, for such breach in a court of competent jurisdiction in the city in which the Employer's principal executive offices are based, or in the sole discretion of the Employer, in a court of competent jurisdiction where the Employee has committed or is threatening to commit a breach of the Employee's covenants, and no arbitrator may make any ruling inconsistent with the findings or rulings of such court.

10.2 *Binding on Successors; Assignment*. This Agreement shall be binding upon and inure to the benefit of the Employee, the Employer and each of their respective successors, assigns, personal and legal representatives, executors, administrators, heirs, distributees, devisees, and legatees, as applicable; provided however, that neither this Agreement nor any rights or obligations hereunder shall be assignable or otherwise subject to hypothecation by the Employee (except by will or by operation of the laws of intestate succession) or by the Employer except that the Employer may assign this Agreement to any successor (whether by merger, purchase or otherwise) to all or substantially all of the stock, assets or businesses of the Employer, if such successor expressly agrees to assume the obligations of the Employer hereunder.

10.3 *Governing Law*. This Agreement shall be governed, construed, interpreted, and enforced in accordance with the substantive law of the State of Texas and federal law, without regard to conflicts of law principles, except as expressly provided herein. In the event the Employer exercises its discretion under Section 10.1 to bring an action to enforce the covenants contained in Section 8 in a court of competent jurisdiction where the Employee has breached or threatened to breach such covenants, and in no other event, the parties agree that the court may apply the law of the jurisdiction in which such action is pending in order to enforce the covenants to the fullest extent permissible.

10.4 *Severability*. Any provision of this Agreement that is deemed invalid, illegal or unenforceable in any jurisdiction shall, as to that jurisdiction, be ineffective, to the extent of such invalidity, illegality or unenforceability, without affecting in any way the remaining provisions hereof in such jurisdiction or rendering that or any other provisions of this Agreement invalid, illegal or unenforceable in any other jurisdiction. If any covenant in Section 8 should be deemed invalid, illegal or unenforceable because its

time, geographical area, or restricted activity, is considered excessive, such covenant shall be modified to the minimum extent necessary to render the modified covenant valid, legal and enforceable.

10.5 *Notices*. For all purposes of this Agreement, all communications required or permitted to be given hereunder shall be in writing and shall be deemed to have been duly given when hand delivered or dispatched by electronic facsimile transmission (with receipt thereof confirmed), or five business days after having been mailed by United States registered or certified mail, return receipt requested, postage prepaid, or three business days after having been sent by a nationally recognized overnight courier service, addressed to the Employer at its principal executive office and to the Employee at the Employee's principal residence, or to such other address as any party may have furnished to the other in writing and in accordance herewith, except that notices of change of address shall be effective only upon receipt.

10.6 *Counterparts*. This Agreement may be executed in several counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one and the same Agreement.

10.7 *Entire Agreement*. The terms of this Agreement are intended by the parties to be the final expression of their agreement with respect to the Employee's employment by the Employer and may not be contradicted by evidence of any prior or contemporaneous agreement. The parties further intend that this Agreement shall constitute the complete and exclusive statement of its terms and that no extrinsic evidence whatsoever may be introduced in any judicial, administrative, or other legal proceedings to vary the terms of this Agreement.

10.8 *Amendments; Waivers.* This Agreement may not be modified, amended, or terminated except by an instrument in writing, approved by the Employer and signed by the Employee and the Employer. Failure on the part of either party to complain of any action or omission, breach or default on the part of the other party, no matter how long the same may continue, shall never be deemed to be a waiver of any rights or remedies hereunder, at law or in equity. The Employee or the Employer may waive compliance by the other party with any provision of this Agreement that such other party was or is obligated to comply with or perform only through an executed writing; provided, however, that such waiver shall not operate as a waiver of, or estoppel with respect to, any other or subsequent failure.

10.9 *No Inconsistent Actions*. The parties hereto shall not voluntarily undertake or fail to undertake any action or course of action that is inconsistent with the provisions or essential intent of this Agreement. Furthermore, it is the intent of the parties hereto to act in a fair and reasonable manner with

respect to the interpretation and application of the provisions of this Agreement.

10.10 *Headings and Section References*. The headings used in this Agreement are intended for convenience or reference only and shall not in any manner amplify, limit, modify or otherwise be used in the construction or interpretation of any provision of this Agreement. All section references are to sections of this Agreement, unless otherwise noted.

10.11 *Beneficiaries*. The Employee shall be entitled to select (and change, to the extent permitted under any applicable law) a beneficiary or beneficiaries to receive any compensation or benefit payable hereunder following the Employee's death, and may change such election, in either case by giving the Employer written notice thereof in accordance with Section 10.5. In the event of the Employee's death or a judicial determination of the Employee's incompetence, reference in this Agreement to the "Employee" shall be deemed, where appropriate, to the Employee's beneficiary, estate or other legal representative.

10.12 *Withholding.*. The Employer shall be entitled to withhold from payment any amount of withholding required by law.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date and year first above written.

J. C. PENNEY CORPORATION, INC.

By: _/s/ Allen Questron____________
Name: _______________________________
Title: ________________________________

EMPLOYEE

_/s/ Robert B. Cavanaugh _________
____
Robert B. Cavanaugh

EXHIBIT A

Management Incentive Compensation

Comp Plan

Employee's annual performance-based incentive compensation shall be a target of 50% of Base Salary unless changed by the Human Resources and Compensation Committee or its delegatee.

The performance measures for the Comp Plan shall be determined by the Human Resources and Compensation Committee or its delegatee and may include, but not be limited to, sales and operating profit for JCPenney Company, Inc.

The performance measures for the Comp Plan are subject to change as determined by the Human Resources and Compensation Committee or its delegatee.

The incentive compensation award may range from 0% to 100% of Base Salary and is based on J. C. Penney Company, Inc. performance against planned objectives.

Exhibit 10.4

SECOND AMENDMENT TO EMPLOYMENT AGREEMENT

This Agreement amends that certain Employment Agreement dated August 1, 1999, as amended, ("Employment Agreement") between J. C. Penney Company, Inc. and J. C. Penney Corporation, Inc., each a Delaware corporation, ("Employer") and Vanessa Castagna ("Employee"), and shall be effective as of July 15, 2004.

1. Section 2 of the Employment Agreement is amended by extending the Termination Date until the date on which a final determination of Employee's employment status is made under Section 2 below. During this extended period of the Termination Date, all terms and provisions of the Employment Agreement shall remain in full force and effect.

2. Section 2 of the Employment Agreement is further amended by adding the following paragraph to Section 2:

   Notwithstanding any other provision of the Employment Agreement, if on or before October 1, 2004, Employee is not advised of the Employer's intention in writing to negotiate and enter into a new employment agreement mutually satisfactory to Employer and Employee, Employee may voluntarily elect to terminate her employment without Cause in which case the Employer will pay or provide to her two years of Grand Total Earnings and the other payments and benefits provided for in Section 7.5(i), other than the severance payment described in clause (4) of said Section 7.5(i). Payments due shall be paid as provided in Section 7.5(ii), except that such portion of the severance payment payable as Base Salary shall continue to be payable on a monthly basis, and Comp Plan payments shall be paid at the normal scheduled times in March of each year in the amount of the lesser of (i) 100 per cent of the target award, or (ii) the actual award payable, as if Employee had remained employed, however, subject to reduction after giving effect to the payments received by the Employee from another employer as provided in the next succeeding paragraph. The noncompetition agreement contained in Section 10.3 shall not apply in case the Employee makes the above election. The Employee shall as soon as practical after receipt of the Employer's written intention to enter into a new employment agreement begin negotiation of a new employment agreement. If no such written intention has been received by October 1, 2004, Employee shall have until November 14, 2004 to make the above election by written notice to Employer. If Employee makes the above election, on or before November 14, 2004, Employee shall be vested in all of Employee's retirement benefits and all restricted stock and options (except for the July 19, 2002 grant if not exercised and the March 1, 2004 grant) granted

   to Employee. If the Employee's employment terminates on or prior to November 14, 2004 pursuant to Section 7.4, the Employee will be treated for all purposes under this Agreement as if Employee had voluntarily terminated employment pursuant to the foregoing provisions of this paragraph. If the Employee takes no action to either negotiate a new employment agreement or make the above election, the Employee shall become an employee at will after November 14, 2004.

For purposes of the preceding paragraph, Employer and Employee agree that Employer's obligation to pay two years of Grand Total Earnings shall terminate on the date Employee enters into employment with another employer, except that Employee shall be entitled to receive payments for the remainder of such two year period for any difference between Grand Total Earnings determined as provided in the preceding paragraph and total cash earnings (i.e., the sum of salary and annual cash incentive compensation payable at target) paid or payable by the new employer for such period. The Employee will report to the Employer any such cash earnings actually earned or to be received by the Employee. The Employee will promptly advise Employer when Employee enters into employment with another employer.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date and year first above written.

J. C. PENNEY COMPANY, INC.

By _/s/ Allen Questrom_____________
Allen Questrom
Chairman and Chief Executive Officer

J. C. PENNEY CORPORATION, INC.

By__/s/ Allen Questrom_____________
Allen Questrom
Chairman and Chief Executive Officer

___/s/ Vanessa Castagna____________
Vanessa Castagna

Exhibit 10.6

EMPLOYMENT AGREEMENT

This **EMPLOYMENT AGREEMENT** (the "Agreement"), made in the City of Plano and the State of Texas, dated as of May 1, 2005, between J. C. Penney Corporation, Inc., a Delaware corporation (hereinafter called the "the Employer"), and Stephen F. Raish (hereinafter called the "the Employee").

WHEREAS, the Employer desires to ensure that it retains the Employee's management and executive services as its Executive Vice President and Chief Information Officer;

WHEREAS, in order to induce the Employee to continue to serve in such positions, the Employer desires to provide the Employee with compensation and other benefits on the terms and conditions set forth in this Agreement; and

WHEREAS, the Employee is willing to accept such employment and perform services for the Employer, on the terms and conditions hereinafter set forth;

NOW THEREFORE, in consideration of the promises and of the mutual covenants herein contained, it is agreed as follows:

1. Employment, Position and Duties.

1.1 The Employer agrees to continue to employ the Employee and the Employee hereby agrees to continue to undertake employment upon the terms and conditions herein set forth.

1.2 During the Term (as hereafter defined), the Employee will serve as Chief Information Officer, or such other position as may be assigned by the Employer's Chief Executive Officer, and shall perform such duties consistent with such position as are determined and directed by the Employer's Chief Executive Officer. The Employee shall devote his full working time, attention and ability to the business of the Employer, including, if applicable, its subsidiaries and/or affiliates to which the Employee may have been assigned responsibilities; provided, however, that it shall not be a violation of this Agreement for the Employee to (i) devote reasonable periods of time to charitable and community activities and, with the approval of the Employer, industry or professional activities, and (ii) manage personal business interests and investments, subject to Section 8, so long as such activities do not materially interfere with the performance of the Employee's responsibilities under this Agreement.

1.3 Unless otherwise agreed by the Employer and the Employee, throughout the term of this Agreement, the Employee's principal offices shall be located in Plano, Texas. The Employee shall undertake normal business travel on behalf of the Employer, the reasonable expenses of which shall be paid by the Employer pursuant to Section 4.

2. Term of Employment.

2.1 *Initial Term.* The Employee's employment under this Agreement ("Term") shall commence on May 1, 2005 (the "Start Date") and, subject to the provisions of this Agreement, shall terminate (the "Termination Date") on the earlier of (i) the third anniversary of the Start Date (the "Initial Term") or (ii) termination of the Employee's employment pursuant to Section 6.

2.2 *Renewal Term.* This Agreement shall expire automatically at the end of the Initial Term, unless extended as provided in this Section 2.2. Within 60 days after the second anniversary of the Initial Term or any Renewal Term (as defined below), Employer shall notify Employee regarding (i) whether the Agreement shall be extended and (ii) the terms and conditions, if any, for such extension. Any such additional extension period ("Renewal Term") shall be deemed to be part of the Term for purposes of this Agreement. If the Employer and the Employee have not entered into a written agreement to extend this Agreement within 45 days after such notice, then at the Employer's election the Employer may release the Employee from his duties during the remaining Term of the Agreement in accordance with and subject to the conditions in Sections 6.4 and 7.3. If Employee is not so released and completes the then remaining Term of the Agreement, Employee shall become employed at-will upon the expiration of such Term as provided for in Section 2.3. Nothing in this Section 2.2 shall be deemed to grant a right of continued employment to the Employee upon expiration of the Initial Term or any Renewal Term.

2.3 *Post-Term At-Will Employment.* If (i) this Agreement is not terminated pursuant to Section 6, and (ii) neither party has otherwise terminated the Employee's employment, upon expiration of the Term (including any Renewal Term), this Agreement shall expire and the Employee shall become employed at-will and may be terminated from employment at any time, without notice or cause. In the event this Agreement expires and the Employee becomes employed at-will, the Employee shall not be entitled to any severance or other termination compensation or benefits under this Agreement, and the Employee's employment shall be subject to those policies and procedures that the Employer may adopt and change in its discretion from time to time. Nothing in this Section 2.3 shall be deemed to grant a right of continued employment to the Employee upon expiration of the Term, and the Employer may terminate the Employee's employment upon expiration of the Term without any further notice and financial obligation to the Employee under Section 7.

3. Compensation.

3.1 *Salary.* In consideration of the services of the Employee during the Term, the Employer shall pay the Employee salary at an annualized rate of $405,000.00 ("Base Salary") (less applicable withholding for taxes and authorized deductions) in accordance with the Employer's usual payroll policies. The Employee's Base Salary shall be reviewed at least annually with the first review date being the March following the Start Date. Base Salary may be adjusted by action of the appropriate committee of the Employer's Board of Directors or its delegate, and may be increased without the necessity of written amendment pursuant to Section 10.8. Notwithstanding the preceding, nothing in this Section 3.1 guarantees an annual increase in Base Salary.

3.2 *Annual Incentive Compensation.* The Employee shall be eligible to participate in the Management Incentive Compensation Program (the "Comp Plan"), as set out in Exhibit A hereto.

3.3 *Grand Total Earnings.* The Employee's "Grand Total Earnings" shall mean an amount equal to Base Salary plus annual incentive under the Comp Plan with a target of 50 per cent of Base Salary.

4. Expenses. During the Term the Employee shall be allowed reimbursement of reasonable expenses necessary for the performance of Employee's duties in accordance with the policies of the Employer.

5. Employee Benefits..

5.1 *Benefits*. During the Term, the Employee shall be entitled to the benefits generally provided or made available to senior employees of the Employer, including group medical insurance benefits (subject in each case, however, to (i) eligibility and (ii) modification or elimination in accordance with the Employer's standard policies as in effect from time to time).

5.2 *Vacation and Paid Leave.* The Employee will be eligible for five (5) weeks of vacation each year.

6. Termination of Employment Prior to Expiration of Term.

6.1 *Death.* In the event of the Employee's death during the Term, the Employee's employment shall terminate, and the Employer shall pay or provide to the Employee's beneficiaries or estate, as appropriate, as soon as practicable after the Employee's death, the amounts and benefits provided for in Section 7.1.

6.2 *Permanent Disability*. If the Employee becomes totally and permanently disabled (as defined in the Employer's Long-Term Disability Plan) during

the Term ("Permanent Disability"), the Employer may terminate the Employee's employment on written notice thereof in accordance with Section 10.5, and the Employer shall provide to the Employee the amounts and benefits provided for in Section 7.1.

6.3 *Termination by the Employer for Cause*. During the Term the Employer may terminate the Employee's employment for "Cause." "Cause in this Agreement means (i) an intentional act of fraud, embezzlement, theft or any other material violation of law that occurs during or in the course of Employee's employment with Employer; (ii) intentional damage to Employer's assets; (iii) intentional disclosure of Employer's confidential information contrary to Employer's policies; (iv) material breach of Employee's obligations under this Agreement; (v) intentional engagement in any competitive activity which would constitute a breach of Employee's duty of loyalty or of Employee's obligations under this Agreement; (vi) the willful and continued failure to substantially perform Employee's duties for Employer (other than as a result of incapacity due to physical or mental illness); or (vii) intentional breach of any of Employer's policies or willful conduct by Employee that is in either case demonstrably and materially injurious to Employer, monetarily or otherwise; provided, however, that termination for Cause based on clause (iv) shall not be effective unless the Employee shall have written notice from the Employer's Chief Executive Officer in accordance with Section 10.5 (which notice shall include a description of the reasons and circumstances giving rise to such notice) not less than 30 days prior to the Employee's termination and the Employee has failed after receipt of such notice to satisfactorily discharge the Employee's duties. For purpose of this Section 6.3, an act, or a failure to act, shall not be deemed "willful" or "intentional" unless it is done, or omitted to be done, by Employee in bad faith or without a reasonable belief that Employee's action or omission was in the best interest of Employer. Failure to meet performance standards or objectives, by itself, does not constitute "Cause." "Cause" also includes any of the above grounds for dismissal regardless of whether Employer learns of it before or after terminating Employee's employment.

6.4 *Termination by the Employer without Cause*. During the Term the Employer may terminate the Employee's employment without Cause. "Without Cause" shall mean for any reason other than death, Permanent Disability or Cause, as provided for in Sections 6.1, 6.2 and 6.3. The Employee's employment may be terminated by the Employer without Cause by delivery to the Employee of notice of termination in accordance with Section 10.5 not less than 30 days prior to termination.

6.5 *Termination by the Employee for Good Reason.* During the Term, the Employee may terminate his employment, without the Employer's consent, for Good Reason. Good Reason shall mean (a) the Employer has breached any material provision of this Agreement and within 30 days

after written notice thereof from the Employee in accordance with Section 10.5, the Employer fails to cure such breach; or (b) a successor or assign (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Employer fails to assume liability under the Agreement in accordance with Section 10.2.

6.6 *Termination by the Employee without Good Reason.* During the Term, the Employee may voluntarily terminate his employment upon 30 days' written notice (the "Notice Period") to the Employer in accordance with Section 10.5. The Employer may in its sole discretion elect to release the Employee from his duties prior to the expiration of the Notice Period, and pay Base Salary to the Employee for the remaining Notice Period. The Employer's election to release the Employee from his duties during the Notice Period shall not be deemed to be a constructive discharge of the Employee or termination without Cause, nor shall such release from duties accelerate the Employee's Termination Date or reduce the total time period during which the Employee must comply with the covenants contained in Section 8.

7. Termination Payments and Benefits.

7.1 *Death or Permanent Disability.* In the event of the death or Permanent Disability of the Employee, as soon as practicable, the Employer shall pay any (i) accrued and unpaid Base Salary and vacation to which the Employee was entitled as of the date of death or determination of Permanent Disability (collectively, the "Compensation Payments"), and (ii) the target annual incentive for the Comp Plan for the fiscal year in which the date of death or the determination of Permanent Disability occurs, prorated for the actual period of service for that fiscal year (the "Prorated Bonus"). The payment of any death benefits or disability benefits under any employee benefit or compensation plan that is maintained by the Employer for the Employee's benefit shall be governed by the terms of such plan.

7.2 *Termination by the Employer for Cause; Termination by the Employee without Good Reason.* In the event of the termination of the Employee by the Employer for Cause or by the Employee without Good Reason, the Employer shall pay the Compensation Payments to the Employee as soon as practicable or within the period required by law, and the Employee shall be entitled to no other compensation, except as otherwise due to the Employee under applicable law. The Employee shall not be entitled to the payment of any bonuses for any portion of the fiscal year in which such termination occurs.

7.3 *Termination by the Employer without Cause; Termination by the Employee with Good Reason.*

(i) *Form and Amount*. In the event of the termination of the Employee by the Employer without Cause or by the Employee with Good Reason, the Employer shall pay the Compensation Payments to the Employee as soon as practicable or within the period required by law. In addition, conditioned upon receipt of the Employee's written release of claims in such form as may be required by the Employer, the Employer shall pay or provide to the Employee (a) as severance pay, an aggregate amount equal to Grand Total Earnings, multiplied by the result obtained by dividing (x) the balance of the Term, measured in days, by (y) 365, with such aggregate amount to be paid in equal installments on the applicable payroll dates for the balance of the Term; (b) for 12 months following termination, outplacement services by a firm selected by the Employee at the expense of the Employer, in an amount up to $30,000, and (c) for 24 months following termination (the "COBRA Continuation Period") the continuation of group medical insurance benefits except as offset by benefits paid or provided by other sources as set forth in Section 7.6, or as prohibited by law.

(ii) *Maintenance of Benefits*. During the COBRA Continuation Period, the Employer shall use its best efforts to maintain its group medical insurance benefits in full force and effect for the continued benefit of the Employee or shall arrange to make available to the Employee group medical benefits substantially similar to those that the Employee would otherwise have been entitled to receive if the Employee's employment had not been terminated. For the COBRA Continuation Period, the Employer shall pay or reimburse the Employee for the COBRA premium.

(iii) *Forfeiture*. Notwithstanding the foregoing provisions of this Section 7, any right of the Employee to receive termination payments and benefits under Section 7 shall be forfeited to the extent of any amounts payable or benefits to be provided after a material breach of any covenant set forth in Section 8.

7.4 *Non-Eligibility For Other Company Separation Pay Benefits*. The Employee shall not be eligible for any payments under any severance program offered by the Employer.

7.5 *Employer's Right of Offset*. If the Employee is at any time indebted to the Employer, or otherwise obligated to pay money to the Employer for any

reason, the Employer, at its election, may offset amounts otherwise payable to the Employee under this Agreement, including, but without limitation, Base Salary and incentive compensation payments, against any such indebtedness or amounts due from the Employee to the Employer, to the extent permitted by law.

7.6 *Mitigation*. In the event of the termination of the Employee by the Employer without Cause, or by the Employee with Good Reason, the Employee shall not be required to mitigate damages by seeking other employment or otherwise as a condition to receiving termination payments or benefits under this Agreement. No amounts earned by the Employee after the Employee's termination by the Employer without Cause or by the Employee with Good Reason, whether from self-employment, as a common law employee, or otherwise, shall reduce the amount of any payment or benefit under any provision of this Agreement. Notwithstanding the foregoing, the Employee's coverage under the Employer's group medical insurance as provided in Section 7.3(i) shall terminate as soon as the Employee becomes covered under any group medical plan made available by another employer. The Employee shall report to the Employer any such coverage actually received by the Employee.

7.7 *Resignations*. Except to the extent requested by the Employer, upon any termination of the Employee's employment with the Employer, the Employee shall immediately resign all positions and directorships with the Employer and each of its subsidiaries and affiliates.

8. Covenants and Representations of the Employee.

8.1 *Confidentiality*. During the Term, and in consideration for the Employee's agreement to enter into this Agreement, the Employer agrees that it will disclose to the Employee its confidential or proprietary information and trade secrets (together, the "Proprietary Information") to the extent necessary for the Employee to carry out his obligations under this Agreement. The Employee hereby covenants and agrees that the Employee shall not, without the prior written consent of the Employer, during the Term or at any time thereafter disclose to any person not employed by the Employer, or use in connection with engaging in competition with the Employer, any Proprietary Information of the Employer.

(i) It is expressly understood and agreed that the Employer's Proprietary Information is all nonpublic information relating to the Employer's business, including but not limited to information, plans and strategies regarding suppliers, pricing, marketing, customers, hiring and terminations, employee performance and evaluations, internal reviews and investigations, short term and

long range plans, acquisitions and divestitures, advertising, information systems, sales objectives and performance, as well as any other nonpublic information, the nondisclosure of which may provide a competitive or economic advantage to the Employer. Proprietary Information shall not be deemed to have become public for purposes of this Agreement where it has been disclosed or made public by or through anyone acting in violation of a contractual, ethical, or legal responsibility to maintain its confidentiality.

(ii) In the event the Employee receives a subpoena, court order or other summons that may require the Employee to disclose Proprietary Information, on pain of civil or criminal penalty, the Employee will promptly give notice of the subpoena or summons pursuant to Section 10.5 and provide the Employer an opportunity to appear at the Employer's expense and challenge the disclosure of its Proprietary Information, and the Employee shall provide reasonable cooperation to the Employer for purposes of affording the Employer the opportunity to prevent the disclosure of the Employer's Proprietary Information.

8.2 *Nonsolicitation of Employees*. The Employee hereby covenants and agrees that during the Term and for two years thereafter, the Employee shall not, without the prior written consent of the Employer, on the Employee's own behalf or on the behalf of any person, firm or company, directly or indirectly, attempt to influence, persuade or induce, or assist any other person in so persuading or inducing, any of the employees of the Employer (or any of its subsidiaries or affiliates) to give up his or her employment with the Employer (or any of its subsidiaries or affiliates), and the Employee shall not directly or indirectly solicit or hire employees of the Employer (or any of its subsidiaries or affiliates) for employment with any other employer.

8.3 *Noninterference with Business Relations.* The Employee hereby covenants and agrees that during the Term and for two years thereafter, the Employee shall not, without the prior written consent of the Employer, on the Employee's own behalf or on the behalf of any person, firm or company, directly or indirectly, attempt to influence, persuade or induce, or assist any other person in so persuading or inducing, any person, firm or company to cease doing business with, reduce its business with, or decline to commence a business relationship with, the Employer (or any of its subsidiaries or affiliates).

8.4 *Noncompetition*. It is recognized by the Employee and the Employer that the Employee's duties hereunder will require the receipt and creation of Proprietary Information, as defined in Section 8.1. The Proprietary Information has been and will continue to be developed by the Employer

and its subsidiaries and affiliates at substantial cost and constitutes valuable and unique property of the Employer. The Employee further acknowledges that due to the nature of the Employee's position, the Employee will have access to Proprietary Information affecting plans and operations in every location in which the Employer (and its subsidiaries and affiliates) does business or plans to do business throughout the world, and the Employee's decisions and recommendations on behalf of the Employer may affect its operations throughout the world. Accordingly, the Employee acknowledges that the foregoing makes it reasonably necessary for the protection of the Employer's business interests that the Employee not compete with the Employer or any of its subsidiaries or affiliates during the Term and for a reasonable and limited period

thereafter, as provided below.

(i) The Employee covenants that during the Term of this Agreement and for a period of one year following the later of either a termination of employment pursuant to Section 6 or a termination of at-will employment following expiration of the Term, the Employee will not undertake work for a Competing Business, as defined in Section 8.4(ii), provided, however, that (a) in the case of a termination of employment pursuant to Section 6.4 or 6.5, the non-compete period shall not exceed the lesser of one year or the period for which the Employee is entitled to Compensation Payments, as provided in Section 7.3(i), and (b) in the case of a termination of at will employment following expiration of the Term, the non-compete period shall not exceed the lesser of one year or the period for which the Employee receives compensation payments as provided under any applicable Employer separation pay program. For purposes of this covenant, "undertake work for" shall include performing services, whether paid or unpaid, in any capacity, including as an officer, director, owner, consultant, employee, agent or representative, where such services involve the performance of similar duties or oversight responsibilities as those performed by the Employee during the 18-month period preceding the Employee's termination from the Employer for any reason.

(ii) As used in this Agreement, the term "Competing Business" shall mean any business that, at the time of the determination:

(A) operates (1) any retail department store, specialty store, or general merchandise store; (2) any retail catalog, telemarketing, or direct mail business; (3) any Internet-based or other electronic retailing business; (4) any other retail business that sells goods, merchandise, or services of the types sold by the Employer, including its divisions, affiliates, and licensees; or (5) any business that provides

buying office or sourcing services to any business of the types referred to in this Section 8.4(ii)(A);

(B) conducts any business of the types referred to in Section 8.4(ii)(A) in the United States or another country in which the Employer, including its divisions, affiliates, and licensees, conducts a similar business; and

(C) from any business(es) of the types referred to in Section 8.4(ii)(A), had aggregate net sales or revenues of $500,000,000 in the fiscal year preceding the determination or is reasonably expected to have aggregate net sales or revenues of $500,000,000 in either the current fiscal year or the next following fiscal year.

8.5 *Injunctive Relief.* If the Employee shall breach the covenants contained in this Section 8, the Employer shall have no further obligation to make any payment to the Employee pursuant to this Agreement and may recover from the Employee all such damages as it may be entitled to at law or in equity. In addition, the Employee acknowledges that any such breach is likely to result in immediate and irreparable harm to the Employer for which money damages are likely to be inadequate. Accordingly, the Employee consents to injunctive and other appropriate equitable relief without the necessity of bond in excess of $500.00 (five hundred dollars) upon the institution of proceedings therefor by the Employer in order to protect the Employer's rights hereunder.

8.6 *Representations of the Employee.* The Employee represents and warrants to the Employer that:

(i) (a) There are no restrictions, agreements or understandings whatsoever to which the Employee is a party that would prevent or make unlawful the Employee's execution of this Agreement or the Employee's employment under this Agreement, or that is or would be inconsistent, or in conflict with this Agreement or the Employee's employment under this Agreement, or would prevent, limit or impair in any way the performance by the Employee of the obligations under this Agreement; and (b) the Employee has disclosed to the Employer all restraints, confidentiality commitments or other employment restrictions that the Employee has with any other employer, person or entity.

(ii) Upon and after the Employee's termination or cessation of employment with the Employer, including any post-Term at-will employment, and until such time as no obligations of the Employee to the Employer hereunder exist, the Employee: (a) shall provide a complete copy of this Agreement to any

prospective employer or other person, entity or association in a Competing Business with whom or which the Employee proposes to be employed, affiliated, engaged, associated or to establish any business or remunerative relationship prior to the commencement thereof, provided that Employee shall first cause the compensation amounts hereunder to be deleted or not disclosed; and (b) shall notify the Employer of the name and address of any such person, entity or association prior to the Employee's employment, affiliation, engagement, association or the establishment of any business or remunerative relationship.

9. Survival. The expiration or termination of the Term shall not impair the rights or obligations of any party hereto that accrue hereunder prior to such expiration or termination, except to the extent specifically stated herein. In addition to the foregoing, the Employee's covenants and warranties contained in Section 8, and the parties' agreements under Section 10 shall survive the expiration of this Agreement and the termination of the Employee's employment, including any post-Term at-will employment.

10. Miscellaneous Provisions.

10.1 *Dispute Resolution.* Any dispute between the parties under this Agreement shall be resolved (except as provided below) through informal arbitration by an arbitrator selected under the rules of the American Arbitration Association for arbitration of employment disputes (located in the city in which the Employer's principal executive offices are based) and the arbitration shall be conducted in that location under the rules of said Association. Each party shall be entitled to present evidence and argument to the arbitrator. The arbitrator shall have the right only to interpret and apply the provisions of this Agreement and may not change any of its provisions, except as expressly provided in Section 10.4 and only in the event Employer has not brought an action in a court of competent jurisdiction to enforce the covenants in Section 8. The arbitrator shall permit reasonable pre-hearing discovery of facts, to the extent necessary to establish a claim or a defense to a claim, subject to supervision by the arbitrator. The determination of the arbitrator shall be conclusive and binding upon the parties and judgment upon the same may be entered in any court having jurisdiction thereof. The arbitrator shall give written notice to the parties stating the arbitrator's determination, and shall furnish to each party a signed copy of such determination. The expenses of arbitration shall be borne equally by the Employer and the Employee or as the arbitrator equitably determines consistent with the application of state or federal law; provided, however, that the Employee's share of such expenses shall not exceed the maximum permitted by law. Any arbitration or action pursuant to this Section 10.1 shall be governed by and construed in accordance with the substantive laws of the State of Texas and, where applicable, federal law, without giving effect to the

principles of conflict of laws of such State. **The mandatory arbitration provisions of this Section 10.1 shall supersede in their entirety the J. C. Penney Alternative, a dispute resolution program generally applicable to employment terminations.**

Notwithstanding the foregoing, the Employer shall not be required to seek or participate in arbitration regarding any actual or threatened breach of the Employee's covenants in Section 8, but may pursue its remedies, including injunctive relief, for such breach in a court of competent jurisdiction in the city in which the Employer's principal executive offices are based, or in the sole discretion of the Employer, in a court of competent jurisdiction where the Employee has committed or is threatening to commit a breach of the Employee's covenants, and no arbitrator may make any ruling inconsistent with the findings or rulings of such court.

10.2 *Binding on Successors; Assignment*. This Agreement shall be binding upon and inure to the benefit of the Employee, the Employer and each of their respective successors, assigns, personal and legal representatives, executors, administrators, heirs, distributees, devisees, and legatees, as applicable; provided however, that neither this Agreement nor any rights or obligations hereunder shall be assignable or otherwise subject to hypothecation by the Employee (except by will or by operation of the laws of intestate succession) or by the Employer except that the Employer may assign this Agreement to any successor (whether by merger, purchase or otherwise) to all or substantially all of the stock, assets or businesses of the Employer, if such successor expressly agrees to assume the obligations of the Employer hereunder.

10.3 *Governing Law*. This Agreement shall be governed, construed, interpreted, and enforced in accordance with the substantive law of the State of Texas and federal law, without regard to conflicts of law principles, except as expressly provided herein. In the event the Employer exercises its discretion under Section 10.1 to bring an action to enforce the covenants contained in Section 8 in a court of competent jurisdiction where the Employee has breached or threatened to breach such covenants, and in no other event, the parties agree that the court may apply the law of the jurisdiction in which such action is pending in order to enforce the covenants to the fullest extent permissible.

10.4 *Severability*. Any provision of this Agreement that is deemed invalid, illegal or unenforceable in any jurisdiction shall, as to that jurisdiction, be ineffective, to the extent of such invalidity, illegality or unenforceability, without affecting in any way the remaining provisions hereof in such jurisdiction or rendering that or any other provisions of this Agreement invalid, illegal or unenforceable in any other jurisdiction. If any covenant in Section 8 should be deemed invalid, illegal or unenforceable because its

time, geographical area, or restricted activity, is considered excessive, such covenant shall be modified to the minimum extent necessary to render the modified covenant valid, legal and enforceable.

10.5 *Notices*. For all purposes of this Agreement, all communications required or permitted to be given hereunder shall be in writing and shall be deemed to have been duly given when hand delivered or dispatched by electronic facsimile transmission (with receipt thereof confirmed), or five business days after having been mailed by United States registered or certified mail, return receipt requested, postage prepaid, or three business days after having been sent by a nationally recognized overnight courier service, addressed to the Employer at its principal executive office and to the Employee at the Employee's principal residence, or to such other address as any party may have furnished to the other in writing and in accordance herewith, except that notices of change of address shall be effective only upon receipt.

10.6 *Counterparts*. This Agreement may be executed in several counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one and the same Agreement.

10.7 *Entire Agreement*. The terms of this Agreement are intended by the parties to be the final expression of their agreement with respect to the Employee's employment by the Employer and may not be contradicted by evidence of any prior or contemporaneous agreement. The parties further intend that this Agreement shall constitute the complete and exclusive statement of its terms and that no extrinsic evidence whatsoever may be introduced in any judicial, administrative, or other

legal proceedings to vary the terms of this Agreement.

10.8 *Amendments; Waivers.* This Agreement may not be modified, amended, or terminated except by an instrument in writing, approved by the Employer and signed by the Employee and the Employer. Failure on the part of either party to complain of any action or omission, breach or default on the part of the other party, no matter how long the same may continue, shall never be deemed to be a waiver of any rights or remedies hereunder, at law or in equity. The Employee or the Employer may waive compliance by the other party with any provision of this Agreement that such other party was or is obligated to comply with or perform only through an executed writing; provided, however, that such waiver shall not operate as a waiver of, or estoppel with respect to, any other or subsequent failure.

10.9 *No Inconsistent Actions*. The parties hereto shall not voluntarily undertake or fail to undertake any action or course of action that is inconsistent with the provisions or essential intent of this Agreement. Furthermore, it is the intent of the parties hereto to act in a fair and reasonable manner with

respect to the interpretation and application of the provisions of this Agreement.

10.10 *Headings and Section References*. The headings used in this Agreement are intended for convenience or reference only and shall not in any manner amplify, limit, modify or otherwise be used in the construction or interpretation of any provision of this Agreement. All section references are to sections of this Agreement, unless otherwise noted.

10.11 *Beneficiaries*. The Employee shall be entitled to select (and change, to the extent permitted under any applicable law) a beneficiary or beneficiaries to receive any compensation or benefit payable hereunder following the Employee's death, and may change such election, in either case by giving the Employer written notice thereof in accordance with Section 10.5. In the event of the Employee's death or a judicial determination of the Employee's incompetence, reference in this Agreement to the "Employee" shall be deemed, where appropriate, to the Employee's beneficiary, estate or other legal representative.

10.12 *Withholding.* The Employer shall be entitled to withhold from payment any amount of withholding required by law.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date and year first above written.

J. C. PENNEY CORPORATION, INC.

By: __/s/ Allen Questrom___________
Name: _______________________________
Title: _______________________________

EMPLOYEE

___/s/ Stephen F. Raish___________
____
Stephen F. Raish

EXHIBIT A

Management Incentive Compensation

Comp Plan

Employee's annual performance-based incentive compensation shall be a target of 50% of Base Salary unless changed by the Human Resources and Compensation Committee or its delegatee.

The performance measures for the Comp Plan shall be determined by the Human Resources and Compensation Committee or its delegatee and may include, but not be limited to, sales and operating profit for JCPenney Company, Inc.

The performance measures for the Comp Plan are subject to change as determined by the Human Resources and Compensation Committee or its delegatee.

The incentive compensation award may range from 0% to 100% of Base Salary and is based on J. C. Penney Company, Inc. performance against planned objectives.

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

(Mark One)

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

For the quarterly period ended July 31, 2004 Commission file number 1-15274

OR

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

For the transitional period from ______________ to ________________
Commission file number _______________________

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

Delaware	26-0037077
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

6501 Legacy Drive, Plano, Texas 75024 - 3698
(Address of principal executive offices)
(Zip Code)

(972) 431-1000
(Registrant's telephone number, including area code)
(Former name, former address and former fiscal year, if changed since last report)

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 whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes X No

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

288,190.139 shares of Common Stock of 50 cents par value, as of September 7, 2004.

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PART I - FINANCIAL INFORMATION

Item 1 - Unaudited Financial Statements

J. C. Penney Company, Inc.
Consolidated Statements of Operations
(Unaudited)

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($ in millions, except per share data)	13 weeks ended		26 weeks ended	
	July 31, 2004	July 26, 2003	July 31, 2004	July 26, 2003
Retail sales, net	$ 3,857	$ 3,645	$ 7,890	$7,356
Cost of goods sold	2,414	2,335	4,832	4,590
Gross margin	1,443	1,310	3,058	2,766
Selling, general and administrative expenses	1,287	1,257	2,673	2,629
Net interest expense	49	70	106	135
Real estate and other (income)	(5)	(12)	(13)	(21)
Income/(loss) from continuing operations before income taxes	112	(5)	292	23
Income tax expense/(benefit)	40	(2)	102	6
Income/(loss) from continuing operations	$ 72	$ (3)	$ 190	$ 17
Discontinued operations, net of income tax (benefit)/expense of $(88), $2, $(178) and $27	(71)	3	(148)	44
Net income	$ 1	$ -	$ 42	$ 61
Less: preferred stock dividends	6	6	12	13
Net (loss)/income applicable to common stockholders	$ (5)	$ (6)	$ 30	$ 48
Basic earnings/(loss) per share:				
Continuing operations	$ 0.23	$(0.03)	$ 0.64	$ 0.02
Discontinued operations	(0.25)	0.01	(0.53)	0.16
Net (loss)/income	$(0.02)	$(0.02)	$ 0.11	$ 0.18

Diluted earnings/(loss) per share:				
Continuing operations	$ 0.23	$(0.03)	$ 0.62	$ 0.02
Discontinued operations	(0.25)	0.01	(0.48)	0.16
Net (loss)/income	$ (0.02)	$(0.02)	$ 0.14	$ 0.18

</table>

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

J. C. Penney Company, Inc.
Consolidated Balance Sheets
(Unaudited)

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($ in millions)	July 31, 2004	July 26 2003	Jan. 31, 2004
Assets			
Current assets			
Cash and short-term investments (including restricted balances of $88, $87 and $87)	$ 7,414	$ 2,617	$ 2,994
Receivables (net of bad debt reserves of $6, $5 and $5)	227	267	233
Merchandise inventory (net of LIFO reserves of $43, $49 and $43)	3,430	3,343	3,156
Prepaid expenses	132	104	130
Total current assets	11,203	6,331	6,513
Property and equipment (net of accumulated depreciation of $2,240, $2,203 and $2,122)	3,464	3,498	3,515
Prepaid pension	1,319	1,111	1,320
Goodwill	39	42	42
Other assets	516	522	556
Assets of discontinued operations (net of fair value adjustment of $-, $- and $450)	-	6,840	6,354
Total Assets	$ 16,541	$ 18,344	$ 18,300

</table>

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

J. C. Penney Company, Inc.
Consolidated Balance Sheets
(Unaudited)

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($ in millions, except per share data)	July 31, 2004	July 26, 2003	Jan. 31, 2004
Liabilities and Stockholders' Equity			
Current liabilities			
Trade payables	$ 1,377	$ 1,048	$ 1,167
Accrued expenses and other	1,390	978	1,384
Short-term debt	20	25	18
Current maturities of long-term debt	1,165	626	242
Income taxes payable	806	-	-
Deferred taxes	90	21	943
Total current liabilities	4,848	2,698	3,754
Long-term debt	3,960	5,128	5,114
Deferred taxes	1,138	1,207	1,217
Other liabilities	993	778	804
Liabilities of discontinued operations	-	2,091	1,986
Total Liabilities	10,939	11,902	12,875
Stockholders' equity			
Capital stock			
Preferred stock, no par value and stated value of $600 per share: authorized, 25 million shares; issued and outstanding, 0.5, 0.5 and 0.5 million shares of Series B ESOP convertible preferred	291	317	304
Common stock, par value $0.50 per share: authorized, 1,250 million shares; issued and outstanding, 284, 272 and 274 million shares	3,774	3,486	3,531
Total capital stock	4,065	3,803	3,835
Reinvested earnings at beginning of year	1,728	2,817	2,817
Net income/(loss)	42	61	(928)
Dividends declared	(81)	(80)	(161)
Reinvested earnings at end of period	1,689	2,798	1,728
Accumulated other comprehensive (loss)	(152)	(159)	(138)
Total Stockholders' Equity	5,602	6,442	5,425
Total Liabilities and Stockholders' Equity	$16,541	$ 18,344	$ 18,300

</table>

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

J. C. Penney Company, Inc.
Consolidated Statements of Cash Flows
(Unaudited)

<table>
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($ in millions)	26 weeks ended	
	July 31, 2004	July 26, 2003
Cash flows from operating activities:		
Income from continuing operations	$ 190	$ 17
Adjustments to reconcile income from continuing operations to net cash provided by/(used in) operating activities:		
Depreciation and amortization	173	199
Asset impairments, PVOL and other unit closing costs	3	16
Net gains on sale of assets	(3)	(51)
Benefit plans expense	19	35
Deferred taxes	33	80
Change in cash from:		
Receivables	-	(11)
Inventory	(274)	(373)
Prepaid expenses and other assets	14	22
Trade payables	210	55
Current income taxes payable	69	(43)
Accrued expenses and other liabilities	(213)	(240)
Net cash provided by/(used in) operating activities	221	(294)
Cash flows from investing activities:		
Capital expenditures	(184)	(150)
Proceeds from the sale of Eckerd drugstores	4,666	-
Proceeds from sale of assets	28	68
Net cash provided by/(used in) investing activities	4,510	(82)
Cash flows from financing activities:		
Change in short-term debt	2	12
Net proceeds from issuance of long-term debt	-	595
Payment of long-term debt, including capital leases	(238)	(33)
Common stock issued, net	182	13
Preferred stock redeemed	(13)	(16)
Dividends paid, preferred and common	(81)	(80)
Net cash (used in)/provided by financing activities	(148)	491
Cash (paid to)/received from discontinued operations	(163)	28
Net increase in cash and short-term investments	4,420	143
Cash and short-term investments at beginning of year	2,994	2,474
Cash and short-term investments at end of period	$7,414	$2,617

</table>

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

Notes to the Unaudited Interim Consolidated Financial Statements

1) Summary of Significant Accounting Policies

A description of significant accounting policies is included in the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2004 (the "2003 10-K"). The accompanying unaudited Interim Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and notes thereto in the 2003 10-K.

The accompanying Interim Consolidated Financial Statements are unaudited but, in the opinion of management, include all material adjustments necessary for a fair presentation. Because of the seasonal nature of the retail business, operating results for interim periods are not necessarily indicative of the results that may be expected for the full year. The January 31, 2004 financial information has been derived from the audited Consolidated Financial Statements, with related footnotes, included in the 2003 10-K.

Certain reclassifications have been made to prior year amounts to conform to the current period presentation.

Holding Company

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 Holding Company assumed the name J. C. Penney Company, Inc. The Holding Company has no direct subsidiaries other than JCP, nor does it have any independent assets or operations. All outstanding shares of common and preferred stock were automatically converted into the identical number and type of shares in the 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 is full and unconditional. The Holding Company and its consolidated subsidiaries, including JCP, are collectively referred to in this quarterly report as "Company" or "JCPenney," unless indicated otherwise.

Stock-Based Compensation

The Company has a stock-based compensation plan that provides for grants to associates of stock awards, stock appreciation rights or options to purchase the Company's common stock. The Company accounts for stock options under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations. No stock-based employee compensation cost is reflected in the consolidated statements of operations for stock options, as all options granted under the plan had an exercise price equal to the market value of the underlying common stock on the date of grant. Compensation expense for fixed stock awards with pro rata vesting is recorded on a straight-line basis over the vesting period, which typically ranges from one to five years.

The following table illustrates the effect on net income and (loss)/earnings per share (EPS) as if the Company had applied the fair value recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation," to stock options.

<table>

<c> ($ in millions, except EPS)	<c> 13 weeks ended	<c>	<c> 26 weeks ended	<c>
	July 31, 2004	July 26, 2003	July 31, 2004	July 26, 2003
Net income, as reported	$ 1	$ -	$ 42	$ 61
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	2	1	4	2
Deduct: Total stock-based employee compensation expense determined under fair value method for all awards, net of related tax effects	(6)	(6)	(12)	(12)

Pro forma net (loss)/income	$ (3)	$ (5)	$ 34	$ 51
(Loss)/earnings per share:				
Basic--as reported	$ (0.02)	$ (0.02)	$0.11	$0.18
Basic--pro forma	$ (0.03)	$ (0.04)	$0.08	$0.14
Diluted--as reported	$ (0.02)	$ (0.02)	$0.14	$0.18
Diluted--pro forma(1)	$ (0.03)	$ (0.04)	$0.11	$0.14

</table>

(1) Diluted EPS is calculated using diluted shares at the continuing operations level.

Effect of New Accounting Standards

In December 2003, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 132 (Revised 2003), "Employers' Disclosures about Pensions and Other Postretirement Benefits." This Statement amends the disclosure requirements of SFAS No. 87, "Employers' Accounting for Pensions," No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits," and No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." The Statement requires interim disclosure that is addressed in Note 12 but did not change the recognition and measurement requirements of the amended Statements.

On May 19, 2004, the FASB issued FASB Staff Position (FSP) SFAS 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003." The referenced legislation (the Act) was passed in December 2003, and provides for a federal subsidy to employers who offer retiree prescription drug benefits that are at least actuarially equivalent to those offered under the government sponsored Medicare Part D. The provisions of FSP SFAS 106-2 will be effective in the Company's third quarter of 2004. Final regulations that would define actuarial equivalency have not yet been issued. As a result, the expense amounts shown in Note 12 do not reflect the potential effects of the Act, which, due largely to the cap on Company contributions, are not expected to have a material effect on the Company's consolidated financial statements.

The provisions of FASB Interpretation No. 46R (FIN 46R), "Consolidation of Variable Interest Entities," became effective in the first quarter of 2004. FIN 46R replaced the same titled FIN 46 that was issued in January 2003. FIN 46R identifies when entities must be consolidated with the financial statements of a company where the investors in an entity do not have the characteristics of a controlling financial interest or the entity does not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. The adoption of FIN 46R did not have a material impact on the Company's consolidated financial statements.

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2) Discontinued Operations

Eckerd Drugstores

On July 31, 2004, the Company closed on the sale of its Eckerd drugstore operations for a total of approximately $4.7 billion in cash proceeds that included a working capital adjustment, which is discussed below. After deducting taxes, fees and other transaction costs, and estimated post-closing adjustments, the ultimate net cash proceeds from the sale are expected to total approximately $3.5 billion. As previously reported, The Jean Coutu Group (PJC) Inc. (Coutu) acquired Eckerd drugstores and support facilities located in 13 Northeast and Mid-Atlantic states, as well as the Eckerd Home Office located in Florida. CVS Corporation and CVS Pharmacy, Inc. (collectively, CVS) acquired Eckerd drugstores and support facilities located in the remaining southern states, principally Florida and Texas, as well as Eckerd's pharmacy benefits management, mail order and specialty pharmacy businesses. Proceeds from the sale will be used for common stock repurchases and debt reduction, as announced on August 2, 2004 and more fully discussed in Note 13.

At closing, the proceeds received by the Company included $209 million for the estimated increase in Eckerd's working capital from January 31, 2004 to July 31, 2004. The working capital adjustment will change based on the final closing balance sheet, which is subject to a review period and must be agreed to between the Company and the purchasers. Additionally, reserves established at closing for estimated post-closing adjustments may be adjusted in future periods based on additional information that may indicate that actual costs are more or less than original estimates. See discussion of the more significant and judgmental reserves below.

During the second quarter, the Company increased the previously recorded estimated loss on disposal of Eckerd by $96 million pre-tax, or $31 million after-tax, including revised estimates of certain post-closing adjustments and resulting sales proceeds. The loss on the sale was $713 million pre-tax, or $1,433 million on an after-tax basis. The relatively high tax cost is a result of the tax basis of Eckerd being lower than its book basis because the Company's previous drugstore acquisitions were largely tax-free transactions. Through the first quarter of 2004, the Company had recorded after-tax losses totaling $1,402 million to reflect Eckerd at its estimated fair value less costs to sell. As reflected on the Consolidated Balance Sheets, income taxes payable related to the Eckerd sale were reclassified from current deferred taxes to current income taxes payable on July 31, 2004, the closing date of the sale.

Discontinued operations in the consolidated statements of operations reflect Eckerd's operating results for all periods presented, including allocated interest expense. Interest expense was allocated to the discontinued operation based on Eckerd's outstanding balance on its intercompany loan payable to JCPenney, which accrued interest at JCPenney's weighted average interest rate on its net debt (long-term debt net of short-term investments) calculated on a monthly basis.

Additionally, $3.4 billion of the present value of lease obligations, which was an off-balance sheet obligation under generally accepted accounting principals (GAAP), was eliminated with the transfer of these leases to the purchasers of the Eckerd drugstore operations upon the closing of the sale.

The Company will provide to the purchasers certain information systems, accounting, banking, vendor contracting, tax and other transition services as set forth in the Company's Transition Services Agreements (Transition Agreements) with CVS and Coutu for a period of twelve months, unless terminated earlier by the purchasers. One Transition Agreement with Pharmacare Management Services, Inc., a subsidiary of CVS, involves the provision of information and data management services for a period of up to fifteen months. The Company will receive monthly service fees, which are designed to recover the costs of providing such services, as specified in the Transition Agreements.

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At the closing of the sale of Eckerd on July 31, 2004, the Company assumed sponsorship of the Eckerd Pension Plan, the Eckerd Contingent Separation Pay Programs and the Genovese Drug Stores, Inc. Stock Option and Stock Appreciation Rights Plan. The Company also assumed the benefit payment obligations under various terminated non-qualified retirement plans and programs and the terminated Fay's Incorporated Non-Employee Director Retirement Plan. The Company further assumed all severance and health and welfare benefit obligations under various employment and other specific agreements. Finally, the Company assumed all retiree health and life insurance obligations under the Eckerd plans and programs. The Company is evaluating its options with respect to these assumed liabilities, including, but not limited to, termination of the agreements, plans or programs and/or settlement of the underlying benefit obligations. As of July 31, 2004, the Company had a liability of approximately $59 million for the Eckerd Pension Plan and these other post-employment severance and benefit obligations.

Certain of the estimated reserves the Company established for post-closing adjustments involved significant judgment and actual costs incurred over time could vary from these estimates. The more significant estimates relate to severance payments to former Eckerd associates, the costs to exit the Colorado and New Mexico markets, environmental indemnifications, and letters of credit

issued as collateral to a third party insurance company for general liability and workers' compensation insurance. These are discussed in more detail below.

As part of the Asset Purchase Agreement with CVS, it was agreed that, with respect to the Colorado and New Mexico locations (CN real estate interests), at closing any of these properties that were not disposed of would be transferred to CVS. On August 25, 2004, the Company and CVS entered into the CN Rescission Agreement, whereby the Company received a one-time payment from CVS of $21.4 million, which represents the agreed-upon limit of CVS's liability regarding the CN real estate interests plus net proceeds from dispositions as of August 25 minus expenses borne and paid by CVS as of August 25 relating to the CN real estate interests. Effective August 25, CVS transferred to the Company all CN real estate interests not disposed of, corresponding third party agreements and liabilities. Based on management's analysis of the length of time expected to exit these locations, estimates of costs expected to be incurred and fair values of owned properties, the Company recorded a net reserve of approximately $80 million as of July 31, 2004. Any costs incurred prior to July 31, 2004 were included in the calculation of the loss on sale. Actual costs to exit these locations could vary from preliminary estimates and the process may take longer than anticipated.

As part of the Eckerd sale agreements, the Company retained responsibility to remediate environmental conditions that existed at the time of the sale. Certain properties, principally distribution centers, were identified as having such conditions at the time of sale. Preliminary cost estimates have been established by management, in consultation with an environmental engineering firm, for specifically identified properties, as well as a certain percentage of the remaining properties, considering such factors as age, location and prior use of the properties. The Company has a liability of $20 million recorded at July 31, 2004 based on management's preliminary analysis of the costs to remediate environmental conditions that are considered probable. Further studies are underway to develop remediation plans and refine cost estimates, which could vary from preliminary estimates.

The Company currently has $64 million in letters of credit pledged as collateral to an insurance company in support of general liability and workers' compensation claims that were transferred to Coutu as part of the Eckerd sale. Based on management's initial assessment of the probable risk, a $5 million reserve was recorded at July 31, 2004. However, the amount of letter of credit support that will be provided by the Company to Coutu is currently under negotiation. Therefore, estimates of loss exposure may change when final terms are agreed upon.

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Mexico Department Stores

Effective November 30, 2003, the Company closed on the sale of its six Mexico department stores to Grupo Sanborns S.A. de C.V. of Mexico City. The stock sale transaction, which included the Mexico holding company and operating companies comprising JCPenney's Mexico department store operation, resulted in a loss of $14 million, net of a $27 million tax benefit. The loss was principally related to currency translation losses of $25 million accumulated since operations began in 1995 that were previously reflected as reductions to stockholders' equity. Additional components of the loss included potential liability on certain real estate leases and merchandise and transaction costs.

Results of the discontinued operations as reflected in the consolidated statements of operations are summarized below:

<table>

<c>	<c>	<c>	<c>	<c>
($ in millions)	13 weeks ended		26 weeks ended	
	July 31, 2004	July 26, 2003	July 31, 2004	July 26, 2003
Eckerd				
Net sales	$3,532	$3,655	$7,254	$ 7,425

Gross margin	833	833	1,676	1,699
Selling, general and administrative expenses	841	779	1,635	1,527
Interest expense	51	38	97	77
Acquisition amortization	3	8	5	18
Other	1	1	2	3
(Loss)/income before income taxes	(63)	7	(63)	74
Income tax (benefit)/expense	(23)	3	(23)	28
Eckerd (loss)/income from operations	(40)	4	(40)	46
(Loss) on sale of Eckerd, net of income tax (benefit) of \$(65), \$-, \$(155) and \$-	(31)	-	(108)	-
Mexico (loss) from operations, net of income tax (benefit) of \$-, \$(1), \$- and \$(1)	-	(1)	-	(2)
Total discontinued operations, net	\$ (71)	\$ 3	\$(148)	\$ 44

</table>

With the closings of the Eckerd sale on July 31, 2004 and the Mexico stores on November 30, 2003, there were no assets or liabilities of discontinued operations as of July 31, 2004. Assets and liabilities of discontinued operations as of July 26, 2003 and January 31, 2004 were as follows:

<table>

<c>	<c>	<c>
(\$ in millions)	July 26 2003(1)	Jan. 31, 2004
Current assets	\$ 2,601	\$ 2,467
Other assets	4,239	4,337
Total Assets	\$ 6,840	\$ 6,804
Current liabilities	\$ 1,669	\$ 1,509
Other liabilities	422	477
Total Liabilities	\$ 2,091	\$ 1,986
JCPenney's net investment	\$ 4,749	\$ 4,818
Fair value adjustment	-	(450)
	\$ 4,749	\$ 4,368

</table>

(1) Includes \$27 million of current assets for Mexico department stores.

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Effective May 20, 2004, the Company terminated Eckerd's managed care receivables securitization program. Upon termination and final payment of \$221 million, the receivables under the program were conveyed back to Eckerd. This transaction was considered in the determination of the fair value of the Company's investment in Eckerd at January 31, 2004.

3) Debt

Eckerd's managed care receivables securitization program was terminated and the related debt paid off in May 2004 in the amount of \$221 million. In June 2004, the 7.375% Notes in the amount of \$208 million matured and were paid, and JCP retired \$25 million of its 9.75% Debentures Due 2021 at par, through the mandatory sinking fund payment of \$12.5 million and an additional \$12.5 million optional sinking fund payment.

Current maturities of long-term debt on the consolidated balance sheets include debt issues that the Company intends to pay off within the next twelve months, including open market purchases of long-term debt, as well as debt issues that

are payable at the holders' option. As a result of the capital structure repositioning program announced on August 2, 2004 and discussed in Note 13, the following securities have been classified as current maturities of long-term debt on the consolidated balance sheet as of July 31, 2004:

<table>
<c> <c>

($ in millions)	July 31, 2004
8.25% Sinking Fund Debentures Due 2022	$ 196
6.00% OID Debentures Due 2006	174
9.75% Sinking Fund Debentures Due 2021	92
7.40% Debentures Due 2037 (Putable April 2005)	400
7.05% Notes Due 2005	193
Open market purchases of long-term debt	100
Capital leases and other	10
	$ 1,165

</table>

4) Earnings per Share

Basic earnings/(loss) per share (EPS) 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 for the period. Except where the effect would be anti-dilutive at the continuing operations level, the diluted EPS calculation includes the impact of restricted stock units and shares that could be issued under outstanding stock options as well as common shares that would result from the conversion of convertible debentures and convertible preferred stock. If the applicable shares are included in the calculation, the related interest on convertible debentures (net of tax) and preferred stock dividends (net of tax) are added back to income, since these would not be paid if the debentures or preferred stock were converted to common stock.

Income/(loss) from continuing operations and shares used to compute EPS from continuing operations, basic and diluted, are reconciled below:

<table>
<c> <C> <c> <c> <c>

(in millions, except per share data)	13 weeks ended		26 weeks ended	
	July 31, 2004	July 26, 2003	July 31, 2004	July 26, 2003
Earnings:				
Income/(loss) from continuing operations	$ 72	$ (3)	$ 190	$ 17
Less: preferred stock dividends, net of tax	6	6	12	13
Income from continuing operations, basic	66	(9)	178	4
Adjustment for assumed dilution:				
Interest on 5% convertible debt, net of tax	-	-	11	-
Income/(loss) from continuing operations, diluted	$ 66	$ (9)	$ 189	$ 4
Shares:				
Average common shares outstanding (basic shares)	283	271	280	271
Adjustment for assumed dilution:				
Stock options and restricted stock units	4	-	5	2
Shares from convertible debt	-	-	23	-
Average shares assuming dilution (diluted shares)	287	271	308	273

EPS from continuing operations:				
Basic	$ 0.23	$(0.03)	$0.64	$0.02
Diluted	$ 0.23	$(0.03)	$0.62	$0.02

</table>

The following potential shares of common stock were excluded from the EPS calculation because their effect would be anti-dilutive:

<table>
<c> <c> <c> <c> <c>

(shares in millions)	13 weeks ended		26 weeks ended	
	July 31, 2004	July 26, 2003	July 31, 2004	July 26, 2003
Restricted stock units	-	2	-	-
Stock options (1)	3	26	7	17
$650 million notes convertible at $28.50 per share	23	23	-	23
Preferred stock	10	11	10	11
(1) Exercise prices per share for the excluded stock options for the respective periods ranged from:	$37 to $71	$9 to $71	$36 to $71	$19 to $71

</table>

5) Cash and Short-Term Investments

<table>
<c> <c> <c> <c>

($ in millions)	July 31, 2004	July 26, 2003	Jan. 31, 2004
Cash	$ 4,771 (1)	$ 3	$ 8
Short-term investments	2,643	2,614	2,986
Total cash and short-term investments	$ 7,414	$2,617	$2,994

</table>

(1) Includes gross cash proceeds of $4,666 million from the sale of Eckerd, which closed on July 31, 2004. See Note 13 for the planned use of cash proceeds.

Restricted Short-term Investment Balances

Short-term investments include restricted balances of $88 million, $87 million and $87 million as of July 31, 2004, July 26, 2003 and January 31, 2004, respectively. Restricted balances are pledged as collateral for import letters of credit not included in the Company's bank credit facility and for a portion of casualty insurance program liabilities.

6) Supplemental Cash Flow Information

<table>
<c> <c> <c>

($ in millions)	26 weeks ended	
	July 31, 2004	July 26, 2003
Total interest paid	$ 207	$ 196
Less: interest paid attributable to discontinued operations	95	75

Interest paid by continuing operations	$ 112	$ 121
Interest received	$ 13	$ 15
Income taxes paid	$ 8	$ 34

</table>

Non-cash transactions: The Company issued 2.4 million shares of common stock in the first quarter of 2003 to fund savings plan contributions of $47 million for 2002.

7) Goodwill

The carrying amount of goodwill for Renner Department Stores in Brazil was $39 million, $42 million and $42 million as of July 31, 2004, July 26, 2003 and January 31, 2004, respectively. The changes in carrying value are related to foreign currency translation adjustments. There were no impairment losses related to goodwill recorded during the first half of 2004 or 2003.

8) Credit Agreement

The Company's Credit Agreement dated as of May 31, 2002 with JPMorgan Chase Bank as administrative agent was amended effective as of June 2, 2004. The amendments permitted the sale of the Eckerd Corporation, and its affiliates and assets, permit a broader range of cash investments, and permit issuing banks to extend maturities of certain letters of credit past the expiration of the Credit Agreement as long as they are collateralized with cash at that time. No borrowings, other than the issuance of trade andstandby letters of credit, which totaled $274 million as of the end of the second quarter of 2004, have been, or are expected to be, made under this facility.

9) Comprehensive Income and Accumulated Other Comprehensive (Loss)

Comprehensive Income/(Loss)

<table>
<c> <c> <c> <c> <c>

($ in millions)	13 weeks ended		26 weeks ended	
	July 31, 2004	July 26, 2003	July 31, 2004	July 26, 2003
Net income	$ 1	$ -	$ 42	$ 61
Other comprehensive (loss)/income:				
Foreign currency translation adjustments	(9)	17	(10)	25
Net unrealized gains/(losses) in real estate investment trusts	8	9	(4)	18
Non-qualified retirement plan minimum liability adjustment	(1)	-	(1)	-
Other comprehensive income from discontinued operations	1	1	1	1
	(1)	27	(14)	44
Total comprehensive income	$ -	$ 27	$ 28	$ 105

</table>

Accumulated Other Comprehensive (Loss)/Income

<table>
<c> <c> <C> <c>

($ in millions)	July 31, 2004	July 26, 2003	Jan. 31, 2004
Foreign currency translation adjustments (1)	$ (125)	$ (115)	$(115)
Net unrealized gains in real estate investment trusts (2)	56	37	60
Non-qualified retirement plan minimum liability adjustment (3)	(83)	(58)	(82)
Other comprehensive (loss) from discontinued operations (4)	-	(23)	(1)
Accumulated other comprehensive (loss)	$ (152)	$ (159)	$(138)

</table>

(1) A deferred tax asset has not been established due to the historical reinvestment of earnings in the Company's Brazilian subsidiary.

(2) Shown net of a deferred tax liability of $30 million, $20 million and $32 million as of July 31, 2004, July 26, 2003 and January 31, 2004, respectively.

(3) Shown net of a deferred tax asset of $53 million, $39 million and $52 million as of July 31, 2004, July 26, 2003 and January 31, 2004, respectively.

(4) Shown net of a deferred tax asset of $- million, $- million and $1 million as of July 31, 2004, July 26, 2003 and January 31, 2004, respectively.

10) Contractual Obligations and Guarantees

Contractual Obligations

In December 2003, JCP notified the third-party service providers of the six outsourced store support centers (SSCs) of its intent to terminate contracted services. In accordance with the related service contracts, JCP assumed $61 million of building leases for four of the six SSCs during the first quarter of 2004 and $34 million of building leases for the two remaining SSCs in the second quarter of 2004. Equipment leases, for which the Company had a potential obligation of $20 million as of July 31, 2004, were assumed on August 1, 2004 by JCP. Additional contractual obligations are disclosed in the 2003 10-K.

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Guarantees

As of July 31, 2004, JCP had guarantees totaling $81 million. Guarantees of $48 million are described in detail in the 2003 10-K and include: $18 million related to investments in a real estate investment trust; $20 million maximum exposure on insurance reserves established by a former subsidiary included in the sale of the Company's Direct Marketing Services business; and $10 million related to certain leases for stores that were sold in 2003, which is recorded in accounts payable and accrued expenses. In addition, JCP had guarantees of approximately $33 million for certain personal property leases assumed by the purchasers of Eckerd, which were previously reported as operating leases.

11) Real Estate and Other (Income)/Expense

<table>
<c> <c> <c> <c> <c>

($ in millions)	13 weeks ended		26 weeks ended	
	July 31, 2004	July 26, 2003	July 31, 2004	July 26, 2003
Real estate activities	$ (7)	$ (6)	$ (14)	$(10)
Net gains from sale of real estate	(1)	(30)	(3)	(51)
Asset impairments, PVOL and other unit				

closing costs	3	24	4	39
Other	-	-	-	1
Total	$ (5)	$(12)	$ (13)	$(21)

</table>

Real estate activities consisted primarily of income from the Company's real estate subsidiaries.

Net real estate gains were recorded from the sale of facilities that are no longer used in Company operations.

Asset impairments, the present value of lease obligations (PVOL) and other unit closing costs of $3 million and $4 million for the second quarter and first half of 2004 consisted primarily of asset impairments.

For the second quarter of 2003, asset impairments, PVOL and other unit closing costs totaled $24 million and consisted of $10 million of accelerated depreciation for catalog facilities closed in the second quarter of 2003, $9 million of asset impairments and $5 million of charges related to the PVOL for closed stores. For the first half of 2003, these costs totaled $39 million and consisted of $22 million of accelerated depreciation for closed catalog facilities, $9 million of asset impairments and $8 million of expenses related to PVOL and other costs for closed units.

12) Retirement Benefit Plans

Net Periodic Benefit Cost/(Credit)

The components of net periodic benefit cost/(credit) for the qualified and non-qualified pension plans and the postretirement plans for the 13 weeks ended July 31, 2004 and July 26, 2003 follow:

<table>
<c> <c> <c> <c> <c> <c> <c>

	Pension Plans					
($ in millions)	Qualified		Supplemental (Non-Qualified)		Postretirement Plans	
	13 weeks ended		13 weeks ended		13 weeks ended	
	July 31, 2004	July 26, 2003	July 31, 2004	July 26, 2003	July 31, 2004	July 26, 2003
Service cost	$ 9	$ 7	$ -	$ -	$ 1	$ -
Interest cost	22	17	2	3	2	3
Expected return on plan assets	(34)	(22)	-	-	-	-
Net amortization	8	10	3	1	(4)	(4)
Net periodic benefit cost/(credit)	$ 5	$ 12	$ 5	$ 4	$ (1)	$ (1)

</table>

The components of net periodic benefit cost/(credit) for the qualified and non-qualified pension plans and the postretirement plans for the 26 weeks ended July 31, 2004 and July 26, 2003 follow:

<table>
<c> <c> <c> <c> <c> <c> <c>

	Pension Plans					
($ in millions)	Qualified		Supplemental (Non-Qualified)		Postretirement Plans	

	26 weeks ended		26 weeks ended		26 weeks ended	
	July 31, 2004	July 26, 2003	July 31, 2004	July 26, 2003	July 31, 2004	July 26, 2003
Service cost	$ 23	$ 22	$ 1	$ 1	$ 2	$ 1
Interest cost	55	56	6	7	5	6
Expected return on plan assets	(82)	(72)	-	-	-	-
Net amortization	26	32	4	2	(11)	(9)
Net periodic benefit cost/(credit)	$ 22	$ 38	$ 11	$ 10	$ (4)	$ (2)

</table>

Employer Contributions

As previously disclosed in the 2003 10-K, the Company does not expect to be required to make a contribution to its qualified plan in 2004 under the Employee Retirement Income Security Act of 1974. However, depending on market conditions and the funded status of the qualified plan, the Company may decide to make a discretionary contribution up to the maximum amount deductible for tax purposes.

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13) Subsequent Events

Capital Structure Repositioning

On August 2, 2004, the Company announced that it intends to use the approximately $3.5 billion in net cash proceeds from the sale of the Eckerd drugstore operations and $1.1 billion of existing cash balances to implement a major repositioning of its capital structure. This repositioning program includes the following:

Debt Reduction

The Company's debt reduction program consists of the retirement of $2.3 billion of debt in 2004 and 2005. As detailed in Note 3, approximately $454 million of on- and off-balance sheet obligations were paid during the second quarter of 2004.

Debt payments for the remainder of 2004 and first half of 2005 are expected to include the following:

- On August 15, 2004, the Company retired $37.5 million of JCP's 8.25% Debentures Due 2022 at par, through the mandatory sinking fund payment of $12.5 million and an optional sinking fund payment for an additional $25 million. On September 1, 2004, the Company redeemed the remaining principal balance of $158.2 million for this issue, at a redemption price of 103.096% plus accrued interest.

- In August 2004, the Company purchased $9 million of JCP's long-term debt on the open market. The Board of Directors has authorized up to $200 million aggregate principal amount of open market purchases of JCP's long-term debt. The Company currently expects to purchase approximately $100 million aggregate principal amount of this debt.

- On September 1, 2004, the Company also redeemed the following debt issues:

  - 6.0% Original Issue Discount Debentures Due 2006, with a July 31, 2004 principal amount of $174 million, at a redemption price of 100% plus accrued interest ($200 million face amount); and

  - 9.75% Sinking Fund Debentures Due 2021, with a principal amount of $92.2 million, at a redemption price of 103.2% plus accrued interest.

- The Company currently anticipates that it will exercise the October 2004

call provision of JCP's $650 million 5.0% Convertible Subordinated Notes Due 2008, which are convertible into 22.8 million common shares.

o Holders of JCP's 7.4% Debentures Due 2037, with a principal amount of $400 million, have the right to elect to redeem the debentures in April 2005.

o In May 2005, the Company expects to pay the $193 million 7.05% Notes Due 2005, at the scheduled maturity date.

The pre-tax cost to redeem these securities, including call premiums and unamortized costs, is expected to be approximately $50 million, which will be recorded as a separate component of interest expense primarily in the third quarter of 2004.

Series B Convertible Preferred Stock Redemption

On August 26, 2004, the Company redeemed all of its outstanding shares of Series B ESOP Convertible Preferred Stock (Preferred Stock), all of which were held by the Company's Savings, Profit-Sharing and Stock Ownership Plan, a 401(k) savings plan. Each preferred stockholder received twenty equivalent shares of JCPenney Common Stock for each one share of Preferred Stock in their Savings Plan account. Preferred Stock shares, which are included in the diluted earnings per share calculation as appropriate, were converted into approximately 9 million common stock shares. Annual dividend savings will approximate $11 million after tax.

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Common Stock Repurchases

The Company has implemented a common stock repurchase program of up to $3.0 billion (not to exceed 133 million shares), including the repurchase of up to $650 million of common stock contingent upon the conversion of JCP's outstanding 5.0% Convertible Subordinated Notes Due 2008. Share repurchases will be made periodically in open-market transactions, subject to market conditions, legal requirements and other factors. No shares had been repurchased as of July 31, 2004. From August 3, 2004 through September 7, 2004, the Company repurchased approximately 7.2 million shares of common stock at a cost of approximately $282 million under the common stock repurchase program authorized by the Company's Board of Directors in July 2004.

Credit Rating

On August 2, 2004, Fitch Ratings upgraded its credit ratings on the Company's $1.5 billion secured bank facility to BBB- from BB+, its senior unsecured notes to BB+ from BB, and its convertible subordinated notes to BB from B+. Standard & Poors revised its outlook to "Stable" from "Negative." Moody's has placed the Company on a watch list for a potential upgrade with positive implications for the Company's credit rating. Moody's review should be completed in October 2004.

Store Support Center Leases

In connection with converting the operation of SSCs from third parties to the Company, on August 1, 2004, JCP assumed approximately $20 million of equipment leases from the former third-party service provider.

Eckerd

On August 25, 2004, the Company and CVS entered into the CN Rescission Agreement with respect to the Colorado and New Mexico locations transferred to CVS pursuant to the Asset Purchase Agreement. Under the CN Rescission Agreement, the Company received a one-time payment from CVS of $21.4 million, which represents the agreed-upon limit of CVS's liability regarding the CN real estate interests plus net proceeds from dispositions as of August 25 minus expenses borne and paid by CVS as of August 25 relating to the CN real estate interests. On August 25, CVS transferred to the Company all CN real estate interests not disposed of, corresponding third party agreements and liabilities.

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

The following discussion relates to J.C. Penney Company, Inc. and its consolidated subsidiaries and should be read in conjunction with the Company's consolidated financial statements as of January 31, 2004, and the year then ended, and Management's Discussion and Analysis of Financial Condition and Results of Operations, both contained in the Company's Annual Report on Form 10-K for the year ended January 31, 2004 (the "2003 10-K").

This discussion is intended to provide the reader with information that will assist in understanding the Company's financial statements, the changes in certain key items in those financial statements from period to period, and the primary factors that accounted for those changes, how operating results affect the financial condition and results of operations of the Company as a whole, as well as how certain accounting principles affect the Company's financial statements.

Key Items in the Second Quarter
- --------------------------------

o Income from continuing operations increased significantly to $72 million, or $0.23 per share, compared to a loss of $3 million, or $0.03 per share, for the comparable 2003 period. For the first half of 2004, income from continuing operations was $190 million, or $0.62 per share, compared to $17 million, or $0.02 per share, for the comparable 2003 period. All references to earnings per share (EPS) are on a diluted basis.

o On July 31, 2004, the Company closed on the sale of its Eckerd drugstore operations and received approximately $4.7 billion in cash proceeds that included a $209 million working capital adjustment. Cash proceeds after income taxes, fees and transaction costs are expected to be approximately $3.5 billion.

o Including the results of the discontinued Eckerd operations, the net loss per share was $0.02 for the second quarter of both 2004 and 2003.

o Comparable department store sales increased by 7.1% and 8.3% for the second quarter and first half of 2004, respectively, when compared to the same periods in fiscal 2003. Catalog/Internet sales decreased 1.6% for the second quarter and increased 2.5% in the first half of 2004.

o The Company ended the second quarter of 2004 with $7.4 billion of cash and short-term investments, including the proceeds from the sale of Eckerd. Long-term debt, including current maturities, was $5.1 billion, reflecting the payment of $233 million of long-term debt that matured during the second quarter of 2004.

o On August 2, 2004, the Company announced its plan to use the approximately $3.5 billion of net proceeds from the sale of the Eckerd drugstore operations and $1.1 billion of existing cash balances to implement a major repositioning of its capital structure. The overall repositioning program consists of:

    o Up to $3.0 billion of common stock repurchases, including up to $650 million contingent upon the conversion of the Company's 5.0% Convertible Subordinated Notes Due 2008 into common shares;

    o $2.3 billion reduction of outstanding debt in 2004 and the first half of 2005;

    o $3.4 billion elimination of the present value of Eckerd lease obligations; and

    o The redemption of all of the Company's outstanding shares of Series B ESOP Convertible Preferred Stock, all of which are held in its 401(k) savings plan.

Discontinued Operation
- ----------------------

On July 31, 2004, the Company closed on the sale of its Eckerd drugstore operations for a total of approximately $4.7 billion in cash proceeds that included a working capital adjustment, which is discussed below. After deducting taxes, fees and other transaction costs, and estimated post-closing adjustments, the ultimate net cash proceeds from the sale are expected to total approximately $3.5 billion. As previously reported, The Jean Coutu Group (PJC) Inc. (Coutu) acquired Eckerd drugstores and support facilities located in 13 Northeast and Mid-Atlantic states, as well as the Eckerd Home Office located in Florida. CVS Corporation and CVS Pharmacy, Inc. (collectively, CVS) acquired Eckerd drugstores and support facilities located in the remaining southern states, principally Florida and Texas, as well as Eckerd's pharmacy benefits management, mail order and specialty pharmacy businesses. Proceeds from the sale will be used for common stock repurchases and debt reduction, as announced on August 2, 2004 and more fully discussed under Capital Structure Repositioning on pages 26-27.

At closing, the proceeds received by the Company included $209 million for the estimated increase in Eckerd's working capital from January 31, 2004 to July 31, 2004. The working capital adjustment will change based on the final closing balance sheet, which is subject to a review period and must be agreed to between the Company and the purchasers. Additionally, reserves established at closing for estimated post-closing adjustments may be adjusted in future periods based on additional information that may indicate that actual costs are more or less than original estimates. The more significant estimates relate to severance payments to former Eckerd associates, the costs to exit the Colorado and New Mexico markets, environmental indemnifications, and letters of credit issued as collateral to a third party insurance company for general liability and workers' compensation insurance. Future cash payments for the Eckerd related reserves will be separately presented in the Company's consolidated statements of cash flows as cash used in discontinued operations.

During the second quarter, the Company increased the previously recorded estimated loss on disposal of Eckerd by $96 million pre-tax, or $31 million after-tax, including revised estimates of certain post-closing adjustments and resulting sales proceeds. The loss on the sale was $713 million pre-tax, or $1,433 million on an after-tax basis. The relatively high tax cost is a result of the tax basis of Eckerd being lower than its book basis because the Company's previous drugstore acquisitions were largely tax-free transactions. Through the first quarter of 2004, the Company had recorded after-tax charges totaling $1,402 million to reflect Eckerd at its estimated fair value less costs to sell.

Additionally, $3.4 billion of the present value of lease obligations, which was an off-balance sheet obligation under generally accepted accounting principals (GAAP), was eliminated with the transfer of these leases to Coutu and CVS upon the closing of the sale.

The Company will provide to the purchasers certain information systems, accounting, banking, vendor contracting, tax and other transition services as set forth in the Company's Transition Services Agreements (Transition Agreements) with CVS and Coutu for a period of twelve months, unless terminated earlier by the purchasers. One Transition Agreement with Pharmacare Management Services, Inc., a subsidiary of CVS, involves the provision of information and data management services for a period of up to fifteen months. The Company will receive monthly service fees, which are designed to recover the costs of providing such services as specified in the Transition Agreements.

At the closing of the sale of Eckerd on July 31, 2004, the Company assumed sponsorship of the Eckerd Pension Plan, the Eckerd Contingent Separation Pay Programs and the Genovese Drug Stores, Inc. Stock Option and Stock Appreciation Rights Plan. The Company also assumed the benefit payment obligations under various terminated non-qualified retirement plans and programs and the terminated Fay's Incorporated Non-Employee Director Retirement Plan. The Company further assumed all severance and health and welfare benefit obligations

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under various employment and other specific agreements. Finally, the Company

assumed all retiree health and life insurance obligations under the Eckerd plans and programs. The Company is evaluating its options with respect to these assumed liabilities, including, but not limited to, termination of the agreements, plans or programs and/or settlement of the underlying benefit obligations. As of July 31, 2004, the Company had a liability of approximately $59 million for the Eckerd Pension Plan and these other post-employment severance and benefit obligations.

Discontinued operations in the consolidated financial statements presented for 2003 also included Mexico department stores, which were sold in November 2003.

Results of Operations
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The following discussion and analysis, consistent with all other financial data throughout this report, focuses on the results of operations and financial condition from the Company's continuing operations.

<table>
<c> <c> <c> <c> <c>

($ in millions, except EPS)	13 weeks ended		26 weeks ended	
	July 31, 2004	July 26, 2003	July 31, 2004	July 26, 2003
Retail sales, net	$ 3,857	$ 3,645	$ 7,890	$ 7,356
Gross margin	1,443	1,310	3,058	2,766
SG&A expenses	1,287	1,257	2,673	2,629
Operating profit	156	53	385	137
Net interest expense	49	70	106	135
Real estate and other (income)	(5)	(12)	(13)	(21)
Income/(loss) from continuing operations before income taxes	112	(5)	292	23
Income tax expense/(benefit)	40	(2)	102	6
Income/(loss) from continuing operations	$ 72	$ (3)	$ 190	$ 17
Diluted EPS from continuing operations	$ 0.23	$ (0.03)	$ 0.62	$ 0.02
Ratios as a percent of sales:				
Gross margin	37.4%	35.9%	38.8%	37.6%
SG&A expenses	33.4%	34.5%	33.9%	35.7%
Operating profit	4.0%	1.4%	4.9%	1.9%
Depreciation and amortization included in operating profit	$ 86	$ 88	$ 173	$ 177

</table>

The Company continued its trend of improved profitability during the second quarter of 2004 as reflected in income from continuing operations of $72 million, or $0.23 per share, compared to a loss of $3 million, or $0.03 per share, for the comparable 2003 period. For the first half of 2004, income from continuing operations was $190 million, or $0.62 per share, compared to $17 million, or $0.02 per share for the comparable 2003 period. The significant increase over 2003 reflects improved operating profit, resulting from strong sales growth, continued gross margin improvement and leveraging of selling, general and administrative (SG&A) expenses. The Company expects third quarter earnings per share from continuing operations to range from $0.35 to $0.40, taking into account the approximately $0.11 per share charges related to planned early debt retirements.

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Operating Profit
- ----------------

Operating profit for the second quarter of 2004 nearly tripled to $156 million, or 4.0% of sales, compared to $53 million, or 1.4% of sales, for the comparable period last year. For the first half of 2004, operating profit increased to $385 million, or 4.9% of sales, compared to $137 million, or 1.9% of sales, for the comparable 2003 period.

Operating profit and its components (sales, gross margin and SG&A) are the key measurements on which management evaluates the financial performance of the retail operations. Real estate activities, gains and losses on the sale of real estate properties, asset impairments and other charges associated with closing store and catalog facilities are evaluated separately from operations, and recorded in real estate and other in the consolidated statements of operations.

Retail Sales, Net
<table>
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($ in millions)	13 weeks ended		26 weeks ended	
	July 31, 2004	July 26, 2003	July 31, 2004	July 26, 2003
Retail sales, net	$ 3,857	$ 3,645	$ 7,890	$ 7,356
Sales percent increase/(decrease):				
Comparable stores (1)	7.1%	2.3%	8.3%	(1.5)%
Total department stores	7.1%	0.6%	8.1%	(2.9)%
Catalog/Internet	(1.6)%	3.9%	2.5%	(4.3)%

</table>

(1) Comparable store sales include sales from stores that have been open for 12 consecutive months. A store's sales become comparable on the first day of the 13th fiscal month.

Department store sales were strong for the second quarter of 2004, with particular strength in May and July. Both comparable department store sales and total department store sales increased 7.1% for the quarter. Sales continued to be strong across the country and in all merchandise divisions, reflecting good customer response to both fashion and basic merchandise, planned marketing events, improved store environment, particularly visual presentation, and added convenience. The fashionable merchandise and focus on maintaining fresh seasonal assortments contributed to the improvement in sales. These factors also drove increases for the first half of 2004, where comparable department store sales increased 8.3% and total department store sales increased 8.1%. The second quarter of 2004 was also positively impacted by early back-to-school sales and sales tax holidays in certain states that shifted sales to July from August last year.

Catalog/Internet sales decreased 1.6% for the second quarter of 2004 compared to last year, and were impacted by strong sell through of certain key categories in the first quarter. For the first half of 2004, Catalog/Internet sales increased 2.5%. Sales reflect a focus on targeted specialty media and the expanded assortments and convenience of the Internet, with less reliance on Big Books. Total Internet sales, which are an integral part of the Company's three-channel retailing strategy, increased more than 30% in the second quarter and approximately 40% on a year-to-date basis.

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In May, the Company launched the Chris Madden home furnishings collection, reflecting the Company's continuing strategy to deliver affordable, trend-right fashion with remarkable quality to its customers. Chris Madden's "Turning Home Into Haven" collection is JCPenney's largest home furnishings launch ever and was introduced with a comprehensive national advertising campaign. Initial sales results from the collection have been strong, particularly in bedding and furniture. In addition, the Company is partnering with Colin Cowie, a nationally recognized wedding planner, to launch a new innovative technology-based wedding registry and a new line of tableware and giftware in the third quarter of 2004.

Gross Margin

Gross margin improved 150 basis points as a percent of sales in this year's second quarter to $1,443 million compared to $1,310 million in the comparable 2003 period. For the first half of 2004, gross margin improved 120 basis points as a percent of sales, to $3,058 million from $2,766 million in the comparable 2003 period. The improvement reflects better inventory management, good sell-through of seasonal merchandise, less clearance, more consistent execution, and continuing benefits from the centralized merchandising model. Benefits of the centralized model have included enhanced merchandise offerings, an integrated marketing plan, leverage in the buying and merchandising process, and more efficient selection and allocation of merchandise to individual department stores.

SG&A Expenses

SG&A expenses in this year's second quarter were $1,287 million compared to $1,257 million in last year's second quarter. Expenses continued to be well leveraged, improving by 110 basis points as a percent of sales. For the first half of 2004, SG&A expenses were $2,673 million compared to $2,629 in the comparable period of 2003, which represented a 180 basis point improvement as a percent of sales. Both the quarter and year-to-date improvements reflect savings in labor costs, centralized store expense management, a decline in non-cash pension costs and early savings from the Company's previously announced cost savings initiatives.

With the sale of Eckerd completed, management can focus on its Department Store and Catalog/Internet business as well as the execution of its capital repositioning program, which was announced August 2, 2004. The performance target for Department Stores and Catalog/Internet continues to be to generate an operating profit of 6% to 8% of sales in 2005. The successful execution of the turnaround, growth of the business and progress toward improving profitability is impacted by customers' response to the Company's merchandise offerings, competitive conditions, the effects of current economic conditions, continued improvement in gross margin and the reduction of the expense structure. The Company's strategic plan, financing strategy and risk management are detailed in the 2003 10-K.

Net Interest Expense
- ---------------------

Net interest expense was $49 million and $70 million for the second quarters of 2004 and 2003. On a year-to-date basis, net interest expense was $106 million in 2004 compared to $135 million in the first half of 2003. The decrease is primarily related to lower average borrowing levels for continuing operations.

For the second quarter of 2004, net interest expense allocated to Eckerd discontinued operations was $51 million compared to $37 million for the same period last year. For the first half of 2004, this amounted to $95 million compared to $75 million for the first half of 2003. The higher interest expense is the result of increases in both the Company's weighted average interest rate and the intercompany loan balance between Eckerd and a subsidiary of the Company. With the completion of the Eckerd sale, the debt and related interest that had been attributed to Eckerd will remain an obligation of the Company. See pages 26-27 for a discussion of the use of estimated proceeds from the Eckerd sale transaction.

Real Estate and Other (Income)/Expenses
- --

Real estate and other consists of real estate activities, gains and losses on the sale of real estate properties, asset impairments, and other charges associated with closing store and catalog facilities. Real estate and other for the second quarter of 2004 was a net credit of $5 million, which consisted of a $7 million credit for real estate operations, $1 million of gains on the sale of closed units and $3 million of costs related to asset impairments, present value of operating leases (PVOL) and other costs of closed stores. For the first half

of 2004, real estate and other was a net credit of $13 million, which consisted of a $14 million credit for real estate operations, $3 million of net gains on the sale of closed units and $4 million of expenses related to asset impairments, PVOL and other costs of closed stores.

For the second quarter of 2003, real estate and other was a net credit of $12 million, which consisted of a $6 million credit for real estate operations, $30 million of gains on the sale of closed units, $10 million of accelerated depreciation of catalog facilities scheduled to close, $9 million of asset impairments and $5 million of expenses related to future rent for closed units. For the first half of 2003, real estate and other was a net credit of $21 million, which consisted of a $10 million credit for real estate operations, $51 million of gains on the sale of closed units, $22 million of accelerated depreciation of catalog facilities scheduled to close, $9 million of asset impairments and $9 million of expenses related to future rent for closed units and other expenses.

Income Taxes

The Company's effective income tax rate for continuing operations was 35.5% for the second quarter of 2004 compared with a tax benefit of 46.6% for the same period last year. For the first half of 2004, the Company's effective income tax rate for continuing operations was 34.9% compared to 24.7% for the comparable period of 2003. The rate increase for the second quarter and first half of 2004 is primarily due to improved earnings, which decreased the favorable impact of permanent adjustments, principally the deduction for dividends paid to the employee stock ownership plan. For the second half of 2004, the Company anticipates an effective income tax rate for continuing operations of 35.0%.

Merchandise Inventory

Merchandise inventory was $3,430 million at July 31, 2004 compared to $3,343 million at July 26, 2003 and $3,156 million at January 31, 2004. With an increase of 2.6% compared to last year, inventory at the end of the second quarter of 2004 was in line with sales expectations, was well managed, and reflected a good balance of seasonal and basic merchandise with less clearance. The Company has enhanced its ability to allocate and flow merchandise to stores in-season by recognizing sales trends earlier and accelerating receipts, replenishing individual stores based on rates of sale, and consistently providing high in-stock levels in basics and advertised items.

Liquidity and Capital Resources

The Company ended the second quarter with approximately $7.4 billion in cash and short-term investments, which included $4.7 billion of gross proceeds received from the closing of the Eckerd sale on July 31, 2004. Net cash proceeds of approximately $3.5 billion from the sale of Eckerd are expected to be used to repurchase common stock and reduce debt as part of a major repositioning of the Company's capital structure. See Capital Structure Repositioning on pages 26-27 for details.

Cash and short-term investments included restricted short-term investment balances of $88 million and $87 million as of July 31, 2004 and July 26, 2003, respectively, which are pledged as collateral for import letters of credit not included in the bank credit facility and for a portion of casualty program liabilities.

The following is a summary of the Company's cash flows from operating, financing and investing activities:

<table>
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($ in millions)	26 weeks ended

	July 31, 2004	July 26, 2003
Net cash provided by/(used in):		
Operating activities	$ 221	$ (294)
Investing activities	4,510	(82)
Financing activities	(148)	491
Cash (paid to)/received from discontinued operations	(163)	28
Net increase in cash and cash equivalents	$ 4,420	$ 143

</table>

Cash Flow from Operating Activities

The increase in net cash provided by operating activities in the first half of 2004 compared with the same period in 2003 was primarily attributable to improved operating performance.

Operating cash flows may be impacted by many factors, including the competitive conditions in the retail industry, and the effects of the current economic and geopolitical conditions and consumer confidence. Based on the nature of the Company's business, management considers the above factors to be normal business risks.

Cash Flow from Investing Activities

Gross cash proceeds of $4,666 million were received from the sale of Eckerd, which closed on July 31, 2004. After deducting taxes, fees and other transaction costs, and estimated post-closing adjustments, the ultimate net cash proceeds from the sale of Eckerd are expected to total approximately $3.5 billion.

Capital expenditures were $184 million for the first half of 2004 compared with $150 million for the comparable 2003 period. Capital spending was for new stores, store renewals and modernizations, and technology, including gift registry. Management continues to expect total capital expenditures for the full year to be in the area of $500 million.

Proceeds from the sale of closed units were $28 million for the first half of 2004 compared with $68 million for the comparable 2003 period.

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Cash Flow from Financing Activities

Approximately $454 million of on- and off-balance sheet obligations were paid off in the second quarter of 2004. As reflected in cash paid to discontinued operations on the consolidated statement of cash flows, Eckerd's managed care receivables securitization program was paid off in May 2004 for a total of $221 million and the program was terminated. In June 2004, the 7.375% Notes in the amount of $208 million matured and were paid. Also in June 2004, $25 million of JCP's 9.75% Debentures Due 2021 were retired at par, through the mandatory sinking fund payment of $12.5 million and an optional sinking fund payment of an additional $12.5 million. These payments were part of the planned $2.3 billion debt reduction program.

Net proceeds from the exercise of stock options were approximately $170 million for the first half of 2004 and were immaterial for 2003.

Quarterly dividends of $0.125 per share on the Company's outstanding common stock were paid on February 1, 2004 to stockholders of record on January 10, 2004 and on May 1, 2004 to stockholders of record on April 10, 2004. The payment of dividends is subject to approval by the Company's Board of Directors on a quarterly basis.

For the remainder of 2004, management believes that cash flow generated from operations, combined with the proceeds from the Eckerd sale and the balance of remaining short-term investments, will be adequate to execute the common stock repurchase and debt reduction programs and fund capital expenditures, working capital and dividend payments and, therefore, no external funding will be

required. At the present time, management does not expect to access the capital markets for any external financing for the remainder of 2004. However, the Company may access the capital markets on an opportunistic basis. Management believes that the Company's financial position will continue to provide the financial flexibility to support its strategic plan.

On August 2, 2004, Fitch Ratings upgraded its credit ratings on the Company's $1.5 billion secured bank facility to BBB- from BB+, its senior unsecured notes to BB+ from BB, and its convertible subordinated notes to BB from B+. Standard & Poors revised its outlook to "Stable" from "Negative." Moody's has placed the Company on a watch list for a potential upgrade with positive implications for the Company's credit rating. Moody's review should be completed in October 2004.

Additional liquidity strengths include the available $1.5 billion credit facility discussed in the 2003 10-K and in Note 8. This revolving credit facility was amended effective June 2, 2004 to permit the sale of the Eckerd drugstore operations and its affiliates and assets, allow a broader range of cash investments, and permit issuing banks to extend maturities of certain letters of credit past the expiration of the Credit Agreement as long as they are collateralized with cash at that time. No borrowings, other than the issuance of trade and standby letters of credit, which totaled $274 million as of the end of the second quarter of 2004, have been, or are expected to be, made under this facility. The Company was in compliance with all financial covenants of the credit facility as of July 31, 2004.

Free Cash Flow

In addition to cash flow from operating activities, management also evaluates free cash flow from continuing operations, which is a non-GAAP financial measure. Management believes free cash flow from continuing operations is important in evaluating the Company's financial performance and measuring the ability to generate cash without incurring additional external financing.

Through the first half of 2004, free cash flow from continuing operations was a deficit of $16 million, a significant improvement compared to a deficit of $456 million for the comparable 2003 period. Better earnings and inventory leverage contributed to the improvement, offset slightly by an increase in capital expenditures. The Company anticipates free cash flow for the full year 2004 to be positive. The following table reconciles net cash provided by/(used in) operating activities (GAAP) to free cash flow from continuing operations (a non-GAAP measure) for the 26 weeks ended July 31, 2004 and July 26, 2003:

<table>
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($ in millions)	26 weeks ended	
	July 31, 2004	July 26, 2003
Net cash provided by/(used in) operating activities - (GAAP)	$ 221	$ (294)
Less:		
Capital expenditures	(184)	(150)
Dividends paid	(81)	(80)
Plus:		
Proceeds from sale of assets	28	68
Free cash flow from continuing operations	$ (16)	$ (456)

</table>

Capital Structure Repositioning

On August 2, 2004, the Company announced that it intends to use the approximately $3.5 billion in net cash proceeds from the sale of the Eckerd drugstore operations and $1.1 billion of existing cash balances to implement a

major repositioning of its capital structure. This repositioning program was approved by the Company's Board of Directors in July 2004 and includes the following:

Debt Reduction

The Company's debt reduction program consists of the retirement of $2.3 billion of debt in 2004 and the first half of 2005. Management expects the debt reduction program to include the following debt issues:

- As previously indicated, $454 million of on- and off-balance sheet obligations were paid off in the second quarter of 2004. Eckerd's managed care receivables securitization program was terminated and the related debt paid off in May 2004 for a total of $221 million. In June 2004, the 7.375% Notes in the amount of $208 million matured and were paid. Also in June 2004, the Company retired $25 million of JCP's 9.75% Debentures Due 2021 at par, through the mandatory sinking fund payment of $12.5 million and an optional sinking fund payment of an additional $12.5 million.

- On August 15, 2004, the Company retired $37.5 million of JCP's 8.25% Debentures Due 2022 at par, through the mandatory sinking fund payment of $12.5 million and an optional sinking fund payment for an additional $25 million. On September 1, 2004, the Company redeemed the remaining principal balance of $158.2 million for this issue, at a redemption price of 103.096% plus accrued interest.

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- In August 2004, the Company purchased $9 million of JCP's long-term debt on the open market. The Board of Directors has authorized up to $200 million aggregate principal amount of open market purchases of JCP's long-term debt. The Company currently expects to purchase approximately $100 million aggregate principal amount of this debt.

- On September 1, 2004, the Company also redeemed the following debt issues:

    - 6.0% Original Issue Discount Debentures Due 2006, with a July 31, 2004 principal amount of $174 million, at a redemption price of 100% plus accrued interest ($200 million face amount); and

    - 9.75% Sinking Fund Debentures Due 2021, with a principal amount of $92.2 million, at a redemption price of 103.2% plus accrued interest.

- The Company anticipates that it will exercise the October 2004 call provision of JCP's $650 million 5.0% Convertible Subordinated Notes Due 2008, which are convertible into 22.8 million common shares.

- Holders of JCP's 7.4% Debentures Due 2037, with a principal amount of $400 million, have the right to elect to redeem the debentures in April 2005.

- In May 2005, the Company expects to pay the $193 million 7.05% Notes Due 2005, at the scheduled maturity date.

The pre-tax cost to redeem these securities, including call premiums and unamortized costs, is expected to be approximately $50 million, which will be recorded as a separate component of interest expense primarily in the third quarter of 2004.

Series B Convertible Preferred Stock Redemption

On August 26, 2004, the Company redeemed all of its outstanding shares of Series B ESOP Convertible Preferred Stock (Preferred Stock), all of which were held by the Company's Savings, Profit-Sharing and Stock Ownership Plan, a 401(k) savings plan. Each preferred stockholder received twenty equivalent shares of JCPenney Common Stock for each one share of Preferred Stock in their Savings Plan account. Shares of Preferred Stock, which are included in the diluted earnings per share calculation as appropriate, were converted into approximately 9 million common stock shares. Annual dividend savings will approximate $11

million after tax.

Common Stock Repurchases

The Company has implemented a common stock repurchase program of up to $3.0 billion (not to exceed 133 million shares), including the repurchase of up to $650 million of common stock contingent upon the conversion of JCP's outstanding 5.0% Convertible Subordinated Notes Due 2008. Share repurchases will be made periodically in open-market transactions, subject to market conditions, legal requirements and other factors. No shares had been repurchased as of July 31, 2004. From August 3, 2004 through September 7, 2004, the Company repurchased approximately 7.2 million shares of common stock at a cost of approximately $282 million under the common stock repurchase program authorized by the Company's Board of Directors in July 2004. The program is expected to be completed within the next nine to twelve months.

Holding Company
- -------------------

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 Holding Company assumed the name J. C. Penney Company, Inc. The Holding Company has no direct subsidiaries other than JCP, nor does it have any independent assets or operations. All outstanding shares of common and preferred stock were automatically converted into the identical number and type of shares in the 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 is full and unconditional. The Holding Company and its consolidated subsidiaries, including JCP, are collectively referred to in this report as "Company" or "JCPenney," unless indicated otherwise.

Critical Accounting Policies
- -----------------------------

Management's discussion and analysis of its financial condition and results of operations is based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the Company to make estimates and judgments that affect reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. Management bases its estimates on historical experience and on other assumptions that are believed to be reasonable under the circumstances. On an ongoing basis, management evaluates estimates used, including those related to inventory valuation under the retail method; valuation of long-lived and intangible assets, including goodwill; estimation of reserves and valuation allowances specifically related to closed stores, insurance, income taxes, litigation and environmental contingencies; and pension accounting. Actual results may differ from these estimates under different assumptions or conditions. Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, in the 2003 10-K includes detailed descriptions of certain judgments that management makes in applying its accounting policies in these areas.

Stock Option Accounting
- --------------------------

As discussed in the 2003 10-K, the Company follows Accounting Principles Board Opinion (APB) No. 25, "Accounting for Stock Issued to Employees," which does not require expense recognition for stock options when the exercise price of an

option equals, or exceeds, the fair market value of the common stock on the date of grant. The Financial Accounting Standards Board (FASB) proposed a new rule that would require expense recognition of stock options in the statement of operations beginning in 2005. The Company will adopt any new rules required by the FASB when they are effective. As required by Statement of Financial Accounting Standards (SFAS) No. 123 for companies retaining APB 25 accounting, the Company discloses the estimated impact of fair value accounting for stock options granted. See Note 1 to the Unaudited Interim Consolidated Financial Statements for the pro forma impact on the second quarters and first six months of 2004 and 2003.

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Recently Issued Accounting Pronouncements
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Recently issued accounting pronouncements are discussed in Note 1 to the unaudited Interim Consolidated Financial Statements.

Pre-Approval of Auditor Services
- ---------------------------------

During the first quarter of 2004, the Audit Committee of the Company's Board of Directors approved estimated fees for the remainder of 2004 related to the performance of both audit and allowable non-audit services by the Company's external auditors, KPMG LLP.

Seasonality
- -------------

The results of operations and cash flows for the 13 and 26 weeks ended July 31, 2004 are not necessarily indicative of the results for the entire year. The Company's business depends to a great extent on the last quarter of the year. Historically for that period, Department Stores and Catalog/Internet sales have averaged approximately one-third of annual sales and income from continuing operations has averaged about 60% of the full year total.

Item 3 - Quantitative and Qualitative Disclosures About Market Risk

The Company is exposed to market risks in the normal course of business due to changes in interest rates and currency exchange rates. The Company's market risks related to interest rates at July 31, 2004 are similar to those disclosed in the Company's 2003 10-K. For the 26 weeks ended July 31, 2004, the other comprehensive loss on foreign currency translation was $10 million. Due to the limited nature of foreign operations, management believes that its exposure to market risk associated with foreign currencies would not have a material impact on its financial condition or results of operations.

Item 4 - Controls and Procedures

Based on their evaluation of the Company's disclosure controls and procedures (as defined in Rules 13a-15 and 15d-15 under the Securities Exchange Act of 1934) as of the end of the period covered by this Quarterly Report on Form 10-Q, the Company's principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures are effective for the purpose of ensuring that material information required to be in this Quarterly Report is made known to them by others on a timely basis. There have not been changes in the Company's internal control over financial reporting that occurred during the Company's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

This report 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.

PART II - OTHER INFORMATION

Item 1 - Legal Proceedings

The Company has no material legal proceedings pending against it.

Item 2 - Changes in Securities and Use of Proceeds

In July 2004, the Company's Board of Directors approved a common stock repurchase program of up to $3.0 billion for common stock repurchases, including up to $650 million contingent upon the conversion of the Company's 5.0% Convertible Subordinated Notes Due 2008.

Also in July 2004, the Company's Board of Directors approved the redemption of all of the Company's outstanding shares of Series B ESOP Convertible Preferred Stock, all of which are held by the Company's Savings, Profit-Sharing and Stock Ownership Plan, a 401(k) savings plan.

Item 4 - Submission of Matters to a Vote of Security Holders

The Annual Meeting of Stockholders of the Company was held on May 15, 2004, at which the two matters described below were submitted to a vote of stockholders, with the voting results as indicated.

(1) Election of directors for a three-year term expiring at the Company's 2007 Annual Meeting of stockholders:

<table>
<c> <c> <c>

NOMINEE	FOR	AUTHORITY WITHHELD
C. C. Barrett	238,269,990	15,835,928
M. A. Burns	190,388,694	63,717,224
M. K. Clark	240,258,098	13,847,820
A. I. Questrom	192,998,480	61,107,438

</table>

(2) The Board of Directors' proposal regarding employment of KPMG LLP as auditors for the fiscal year ending January 29, 2005:

<table>
<c> <c> <c> <c>

FOR	AGAINST	ABSTAIN	BROKER NON-VOTES
244,105,689	7,657,516	2,342,714	-0-

</table>

Item 6 - Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit Nos.

10.1 Amendment and Waiver No. 1 to Asset Purchase Agreement dated as of July 30, 2004, among CVS Pharmacy, Inc., CVS Corporation, J. C. Penney Company, Inc., Eckerd Corporation, Thrift Drug, Inc., Genovese Drug Stores, Inc., and Eckerd Fleet, Inc.

10.2 First Amendment to Stock Purchase Agreement dated as of July 30, 2004, among The Jean Coutu Group (PJC) Inc., J. C. Penney Company, Inc., and TDI Consolidated Corporation.

10.3 CN Rescission Agreement dated as of August 25, 2004 among CVS Corporation, CVS Pharmacy, Inc., certain CVS affiliates, and J. C. Penney Company, Inc.

10.4 Second Amendment to Employment Agreement effective July 15, 2004

10.5 Employment Agreement dated as of May 1, 2005

10.6 Employment Agreement dated as of May 1, 2005

31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K

The Company filed the following reports on Form 8-K during the period covered in this report:

o Current Report on Form 8-K dated May 18, 2004 (Item 12 - Results of Operations and Financial Condition)

o Current Report on Form 8-K/A dated May 18, 2004 (Item 12 - Results of Operations and Financial Condition)

o Current Report on Form 8-K dated July 31, 2004 (Item 2 - Acquisition and Disposition of Assets; Item 5 - Other Events and Regulation FD Disclosure)

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

J. C. PENNEY COMPANY, INC.
By /s/ William J. Alcorn

W. J. Alcorn
Senior Vice President and Controller
(Principal Accounting Officer)

Date: September 8, 2004

Exhibit 31.1

CERTIFICATION
- -------------

I, Allen Questrom, Chairman and Chief Executive Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of J. C. Penney Company, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) [Intentionally omitted]

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 8, 2004.

/s/ Allen Questrom

Allen Questrom
Chairman and Chief Executive Officer
J. C. Penney Company, Inc.

Exhibit 31.2

CERTIFICATION
- --------------

I, Robert B. Cavanaugh, Executive Vice President and Chief Financial Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of J. C. Penney Company, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) [intentionally omitted]

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed,

based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 8, 2004.

/s/ Robert B. Cavanaugh

Robert B. Cavanaugh
Executive Vice President and
Chief Financial Officer
J. C. Penney Company, Inc.

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of J. C. Penney Company, Inc. (the "Company") on Form 10-Q for the period ending July 31, 2004 (the "Report"), I, Allen Questrom, Chairman and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

DATED this 8th day of September 2004.

/s/ Allen Questrom

Allen Questrom
Chairman and Chief Executive Officer

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of J. C. Penney Company, Inc. (the "Company") on Form 10-Q for the period ending July 31, 2004 (the "Report"), I, Robert B. Cavanaugh, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

DATED this 8th day of September 2004.

/s/ Robert B. Cavanaugh

Robert B. Cavanaugh
Executive Vice President and
Chief Financial Officer