

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended April 29, 2006

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: 1-15274

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

Delaware 26-0037077
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) 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)

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 No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. 234,839,421 shares of Common Stock of 50 cents par value, as of June 2, 2006.

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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

	Apr. 29, 2006	Apr. 30, 2005	
Retail sales, net	\$ 4,220	\$ 4,118	
Cost of goods sold	2,451	2,424	
Gross margin	1,769	1,694	
Selling, general and administrative expenses		1,400	1,386
Net interest expense	34	49	
Bond premiums and unamortized costs		-	13
Real estate and other (income)	(13)	(22)	
Income from continuing operations before income taxes		348	268
Income tax expense	135	97	
Income from continuing operations		\$ 213	\$ 171
Discontinued operations, net of income tax (benefit) of \$(2) and \$-	(3)	1	
Net income	\$ 210	\$ 172	
Basic earnings/(loss) per share:			
Continuing operations	\$ 0.91	\$ 0.63	
Discontinued operations	(0.01)	-	
Net income	\$ 0.90	\$ 0.63	
Diluted earnings/(loss) per share:			
Continuing operations	\$ 0.90	\$ 0.62	
Discontinued operations	(0.01)	0.01	
Net income	\$ 0.89	\$ 0.63	

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

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

<table>

<c> (\$ in millions)	<c> Apr. 29, 2006	<c> Apr. 30, 2005	<c> Jan. 28, 2006	
Assets				
Current assets				
Cash and short-term investments (including restricted balances of \$56, \$64 and \$65)	\$ 2,791	\$ 4,115	\$ 3,016	
Receivables	269	274	270	
Merchandise inventory (net of LIFO reserves of \$24, \$25 and \$24)	3,355	3,258	3,210	
Prepaid expenses	181	172	206	
Total current assets	6,596	7,819	6,702	
Property and equipment (net of accumulated depreciation of \$2,163, \$2,103 and \$2,097)		3,787	3,574	3,748
Prepaid pension	1,465	1,524	1,469	
Other assets	530	493	542	
Assets of discontinued operations		-	289	-
Total Assets	\$12,378	\$13,699	\$ 12,461	

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

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

<table>

<c> (\$ in millions, except per share data)	<c> 2006	<c> Apr. 29, 2005	<c> Apr. 30, 2006	Jan. 28,
Liabilities and Stockholders' Equity				
Current liabilities				

Trade payables	\$ 1,219	\$ 1,155	\$ 1,171	
Accrued expenses and other	1,205	1,404	1,562	
Short-term debt	-	72	-	
Current maturities of long-term debt	345	264	21	
Income taxes payable	-	102	8	
	-----	-----	-----	
Total current liabilities	2,769	2,997	2,762	
Long-term debt	3,116	3,461	3,444	
Deferred taxes	1,277	1,320	1,287	
Other liabilities	967	1,031	961	
Liabilities of discontinued operations	-	128	-	
	-----	-----	-----	
Total Liabilities	8,129	8,937	8,454	
Stockholders' Equity				
Common stock and additional paid-in capital(1)		3,559	4,192	3,479
	-----	-----	-----	
Reinvested earnings at beginning of year		512	812	812
Net income	210	172	1,088	
Retirement of common stock	-	(259)	(1,263)	
Dividends declared	(42)	(34)	(125)	
	-----	-----	-----	
Reinvested earnings at end of period		680	691	512
Accumulated other comprehensive income/(loss)		10	(121)	16
	-----	-----	-----	
Total Stockholders' Equity		4,249	4,762	4,007
	-----	-----	-----	
Total Liabilities and Stockholders' Equity		\$12,378	\$13,699	\$12,461
	=====	=====	=====	

</table>

(1) Common stock has a par value of \$0.50 per share; 1,250 million shares are authorized. As of April 29, 2006, April 30, 2005 and January 28, 2006, 235 million shares, 267 million shares and 233 million shares were issued and outstanding, respectively.

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

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

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13 weeks ended

Apr. 29, Apr. 30,
2006 2005

(\$ in millions)

(Revised)

Cash flows from operating activities:

Net income	\$ 210	\$ 172	
Loss/(income) from discontinued operations		3	(1)
Adjustments to reconcile net income to net cash (used in)/provided by operating activities:			
Asset impairments, PVOL and other unit closing costs		-	1
Depreciation and amortization	88	87	

Net gains on sale of assets	(3)	(14)	
Benefit plans expense	12	20	
Stock-based compensation	7	22	
Deferred taxes	28	33	
Change in cash from:			
Receivables	(24)	(31)	
Inventory	(145)	(116)	
Prepaid expenses and other assets	28	(18)	
Trade payables	47	11	
Current income taxes payable	3	56	
Accrued expenses and other liabilities	(373)	(188)	
Net cash (used in)/provided by operating activities		(119)	34
Cash flows from investing activities:			
Capital expenditures	(126)	(97)	
Proceeds from sale of assets	5	16	
Net cash (used in) investing activities		(121)	(81)
Cash flows from financing activities:			
Payments of long-term debt, including capital leases and bond premiums		(3)	(138)
Common stock repurchased	-	(318)	
Dividends paid, common and preferred	(29)	(35)	
Proceeds from stock options exercised	54	75	
Net cash provided by/(used in) financing activities		22	(416)
Cash flows from discontinued operations:			
Operating cash flows	(7)	(92)	
Investing cash flows	-	4	
Financing cash flows	-	17	
Total cash (paid for) discontinued operations		(7)	(71)
Net (decrease) in cash and short-term investments		(225)	(534)
Cash and short-term investments at beginning of year		3,016	4,649
Cash and short-term investments at end of period		\$ 2,791	\$ 4,115

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

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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 28, 2006 (the 2005 10-K). The accompanying unaudited Interim Consolidated Financial Statements present the results of J. C. Penney Company, Inc. and its subsidiaries (the Company or JCPenney) and should be read in conjunction with the Consolidated Financial Statements and notes thereto in the 2005 10-K. All significant intercompany transactions and balances have been eliminated in consolidation.

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 28, 2006 financial information was derived from the audited Consolidated Financial Statements, with related

footnotes, included in the 2005 10-K.

Certain reclassifications were made to prior year amounts to conform to the current period presentation, including the reclassification of the results of operations and financial position of Lojas Renner S.A. (Renner) to discontinued operations for all periods presented (see Note 2).

Certain debt securities were issued by J. C. Penney Corporation, Inc. (JCP), the wholly owned operating subsidiary of the Company. The Company is a co-obligor (or guarantor, as appropriate) regarding the payment of principal and interest on JCP's outstanding debt securities. The guarantee by the Company of certain of JCP's outstanding debt securities is full and unconditional.

Stock-Based Compensation

The Company has a stock-based compensation plan that provides for grants to associates of restricted and non-restricted stock awards (shares and units), stock appreciation rights or options to purchase the Company's common stock. Effective January 30, 2005, the Company adopted Statement of Financial Accounting Standards No. 123 (revised), "Share-Based Payment" (SFAS No. 123R), which requires the use of the fair value method of accounting for all stock-based compensation, including stock options. The statement was adopted using the modified prospective method of application. Under this method, in addition to reflecting compensation expense for new share-based awards, expense is also recognized to reflect the remaining vesting period of awards that had been included in pro-forma disclosures in prior periods. The Company did not adjust prior year financial statements under the optional modified retrospective method of application.

Prior to fiscal year 2005, the Company used the Black-Scholes option pricing model to estimate the grant date fair value of stock option awards. For grants subsequent to the adoption of SFAS No. 123R, the Company estimates the fair value of stock option awards on the date of grant using a binomial lattice model developed by outside consultants who worked with the Company in the implementation of SFAS No. 123R. The Company believes that the binomial lattice model is a more accurate model for valuing employee stock options since it better reflects the impact of stock price changes on option exercise behavior.

See Note 9 for additional discussion of the Company's stock-based compensation.

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Cash Flow Presentation

Beginning with the 2005 10-K, the Company has separately disclosed the operating, investing and financing portions of the cash flows attributable to its discontinued operations. In prior periods, these were reported on a combined basis as a single amount.

Effect of New Accounting Standards

On October 6, 2005, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) FAS 13-1, "Accounting for Rental Costs Incurred during a Construction Period." FSP FAS 13-1 requires rental costs associated with ground or building operating leases that are incurred during a construction period to be treated as rental expense, as opposed to capitalizing them as a part of the building or leasehold improvement. The provisions of this FSP must be applied to the first reporting period beginning after December 15, 2005, and therefore, beginning in the first quarter of fiscal 2006, the Company no longer capitalizes rental costs incurred during the construction period. FSP FAS 13-1 did not have a material impact on the Company's consolidated financial statements for the thirteen weeks ended April 29, 2006, and the Company did not adjust prior year financial statements under the optional retrospective method of application.

2) Discontinued Operations

Lojas Renner S.A.

On July 5, 2005, the Company's indirect wholly owned subsidiary, J. C. Penney Brazil, Inc., closed on the sale of its shares of Renner, a Brazilian department store chain, through a public stock offering registered in Brazil. The Company generated cash proceeds of \$283 million from the sale of its interest in Renner.

After taxes and transaction costs, net proceeds approximated \$260 million. Proceeds from the sale were used for common stock repurchases, which are more fully discussed in Note 3.

The sale resulted in a cumulative pre-tax gain of \$26 million and a loss of \$7 million on an after-tax basis. The relatively high tax cost is largely due to the tax basis of the Company's investment in Renner being lower than its book basis as a result of accounting for the investment under the cost method for tax purposes. Included in the pre-tax gain on the sale was \$83 million of foreign currency translation losses that had accumulated since the Company acquired its controlling interest in Renner.

Eckerd Drugstores

On July 31, 2004, the Company and certain of its subsidiaries closed on the sale of its Eckerd drugstore operations to the Jean Coudu Group (PJC) Inc. and CVS Corporation and CVS Pharmacy, Inc. (together, CVS). During the first quarter of 2006, the Company recorded a \$3 million after-tax charge relating to the Eckerd sale, primarily related to taxes payable resulting from a state sales tax audit. Through the first quarter of 2006, the cumulative loss on the Eckerd sale was \$719 million pre-tax, or \$1,333 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.

The net cash proceeds of approximately \$3.5 billion from the Eckerd sale, which closed in the second quarter of 2004, were used for common stock repurchases and debt reduction, which are more fully discussed in Note 3.

Upon closing on the sale of Eckerd, the Company established reserves for estimated transaction costs and post-closing adjustments. Certain of these reserves involved significant judgment and actual costs incurred over time could vary from these estimates. The more significant remaining estimates relate to the costs to exit the Colorado and New Mexico markets, assumption of the Eckerd Pension Plan and various post-employment benefit obligations and environmental indemnifications. Management continues to review and update the remaining reserves on a quarterly basis and believes that the overall

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reserves, as adjusted, are adequate at the end of the first quarter of 2006 and consistent with original estimates. Cash payments for the Eckerd-related reserves are included in the Company's Consolidated Statements of Cash Flows as Cash Paid for Discontinued Operations, with tax payments included in operating cash flows and all other payments, if applicable, included in investing cash flows.

Based on the terms of an agreement with CVS entered into subsequent to the Eckerd sale, in August 2004, CVS transferred to the Company all Colorado and New Mexico real estate interests that had not been disposed of by CVS and made a one-time payment to the Company of \$21.4 million. The Company engaged a third-party real estate firm to assist it in disposing of the properties. As of April 29, 2006, most of the properties had been disposed of, and the Company is working through disposition plans for the remaining properties.

At or immediately prior to the closing of the sale of Eckerd, JCP assumed sponsorship of the Pension Plan for Former Drugstore Associates and various other terminated nonqualified retirement plans and programs. JCP further assumed all severance obligations and post-employment health and welfare benefit obligations under various Eckerd plans and employment and other specific agreements. JCP has evaluated its options with respect to these assumed liabilities and has either settled the obligations in accordance with the provisions of the applicable plan or program or determined in most other cases to terminate the agreements, plans or programs and settle the underlying benefit obligations. On June 20, 2005, the Board of Directors of JCP approved the termination of JCP's Pension Plan for Former Drugstore Associates; required notices have been sent to the affected parties. JCP is in the process of seeking regulatory approval for the termination and selecting an annuity provider to settle the underlying benefit obligations.

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. Reserves were established by management, after 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's financial statements reflect Renner and Eckerd as discontinued operations for all periods presented. Results of the discontinued operations are summarized below:

Discontinued Operations (\$ in millions)	13 weeks ended	
	Apr. 29, 2006	Apr. 30, 2005
(Loss) on sale of Eckerd, net of income tax (benefit) of \$(2) and \$-	\$ (3)	\$ -
Renner income from operations, net of income tax expense of \$- and \$-	-	1
Total (loss)/income from discontinued operations	\$ (3)	\$ 1

Included in the Renner income from operations amount provided above were net sales of \$74 million for the first quarter of 2005.

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Assets and liabilities of the Renner discontinued operation were reflected on the Consolidated Balance Sheet as of April 30, 2005 as follows:

(\$ in millions)	Apr. 30, 2005
Current assets	\$ 176
Goodwill	42
Other assets	71
Total assets	\$ 289
Current liabilities	\$ 120
Other liabilities	8
Total liabilities	\$ 128
JCPenney's net investment in Renner	\$ 161

3) Common Stock Repurchase and Debt Reduction Programs

In February 2006, the Company's Board of Directors (Board) authorized a new program of common stock repurchases of up to \$750 million, which will be funded with 2005 free cash flow and cash proceeds from stock option exercises. By the end of 2005, the Company had completed its 2005 and 2004 equity and debt reduction programs, which focused on enhancing stockholder value, strengthening the Company's capital structure and improving its credit rating profile. The Company used the approximate \$3.5 billion in net cash proceeds from the sale of the Eckerd drugstore operations, \$260 million in net cash proceeds from the sale of its shares of Renner, cash proceeds from the exercise of employee stock options and existing cash and short-term investment balances, including free cash flow generated in 2004, to fund the programs, which consisted of common stock repurchases, debt reduction and redemption, through conversion to common stock, of all outstanding shares of the Company's Series B ESOP Convertible Preferred Stock.

Common Stock Repurchases

No common stock was repurchased during the first quarter of 2006 due to the planned announcements of important strategic initiatives, primarily the Sephora initiative, accelerated store growth and increased earnings per share growth targets, which were announced in mid-April. Management continues to expect to complete the current \$750 million program by the end of 2006.

The Company's 2005 and 2004 common stock repurchase programs totaled \$4.15 billion and were completed in the fourth quarter of 2005. In total, 94.3 million shares were repurchased under these programs, which represented nearly 30% of the common share equivalents outstanding at the time of the Eckerd sale in 2004 when the capital structure repositioning program was initiated, including shares issuable under convertible debt securities.

Common stock was retired on the same day it was repurchased, with the excess of the purchase price over the par value being allocated between Reinvested Earnings and Additional Paid-In Capital.

Debt Reduction

The Company's debt reduction programs, which were completed by the end of the second quarter of 2005, consisted of approximately \$2.14 billion of debt retirements.

The Company's debt retirements included \$250 million of open-market debt repurchases in the first half of 2005, the payment of \$193 million of long-term debt at the scheduled maturity date in May 2005 and 2004 transactions that consisted of \$650 million of debt converted to common stock, \$822 million of

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cash payments and the termination of the \$221 million Eckerd securitized receivables program. The Company incurred pre-tax charges of \$18 million in 2005 related to these early debt retirements (\$13 million and \$5 million respectively, in the first and second quarters). During 2004, the Company incurred total pre-tax charges of \$47 million related to early debt retirements.

Common Stock Outstanding

During the first quarter of 2006, the number of outstanding shares of common stock changed as follows:

(in millions)	Outstanding Common Shares
Balance as of January 28, 2006	233
Exercise of stock options	2
Balance as of April 29, 2006	235

4) Earnings per Share

Basic earnings per share (EPS) is computed by dividing net income by the weighted-average number of shares of common stock outstanding for the period. Except when 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, during the period, could have been issued under outstanding stock options.

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

(in millions, except EPS)	13 weeks ended	
	Apr. 29, 2006	Apr. 30, 2005
Earnings:		
Income from continuing operations, basic and diluted	\$ 213	\$ 171
Shares:		
Average common shares outstanding (basic shares)	234	271
Adjustment for assumed dilution:		
Stock options and restricted stock units	2	3
Average shares assuming dilution (diluted shares)	236	274

EPS from continuing operations:

Basic	\$ 0.91	\$0.63
Diluted	\$ 0.90	\$0.62

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

(shares in millions)	13 weeks ended	
	Apr. 29, 2006	Apr. 30, 2005
Stock options	1	2

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5) Cash and Short-Term Investments

(\$ in millions)	13 weeks ended		
	Apr. 29, 2006	Apr. 30, 2005	Jan. 28, 2006
Cash	\$ 123	\$ 139	\$ 109
Short-term investments	2,668	3,976	2,907
Total cash and short-term investments	\$ 2,791	\$4,115	\$3,016

Restricted Short-Term Investment Balances

Short-term investments include restricted balances of \$56 million, \$64 million and \$65 million as of April 29, 2006, April 30, 2005 and January 28, 2006, respectively. Restricted balances are pledged as collateral for a portion of casualty insurance program liabilities.

6) Supplemental Cash Flow Information

(\$ in millions)	13 weeks ended	
	Apr. 29, 2006	Apr. 30, 2005
Total interest paid	\$ 70	\$ 112
Less: interest paid attributable to discontinued operations	-	4
Interest paid by continuing operations	\$ 70	\$ 108(1)
Interest received by continuing operations	\$ 33	\$ 21
Total income taxes paid	\$ 105	\$ 17
Less: income taxes paid attributable to discontinued operations	6	3
Income taxes paid by continuing operations	\$ 99	\$ 14

(1) Includes cash paid for bond premiums and commissions of \$8 million.

7) Credit Agreement

On April 7, 2005, the Company, JCP and J. C. Penney Purchasing Corporation

entered into a five-year \$1.2 billion unsecured revolving credit facility (2005 Credit Facility) with a syndicate of lenders with JPMorgan Chase Bank, N.A., as administrative agent.

The 2005 Credit Facility includes a requirement that the Company maintain, as of the last day of each fiscal quarter, a maximum ratio of Funded Indebtedness to Consolidated EBITDA (Leverage Ratio, as defined in the 2005 Credit Facility), as measured on a trailing four-quarters basis, of no more than 3.0 to 1.0. Additionally, the 2005 Credit Facility requires that the Company maintain, for each period of four consecutive fiscal quarters, a minimum ratio of Consolidated EBITDA plus Consolidated Rent Expense to Consolidated Interest Expense plus Consolidated Rent Expense (Fixed Charge Coverage Ratio, as defined in the 2005 Credit Facility) of at least 3.2 to 1.0. As of April 29, 2006, the Company's Leverage Ratio was 1.7 to 1.0, and its Fixed Charge Coverage Ratio was 5.9 to 1.0, both in compliance with the requirements.

No borrowings, other than the issuance of standby and import letters of credit, which totaled \$132 million as of the end of the first quarter of 2006, have been made under the 2005 Credit Facility.

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8) Comprehensive Income and Accumulated Other Comprehensive Income/(Loss)

Comprehensive Income

(\$ in millions)	13 weeks ended	
	Apr. 29, 2006	Apr. 30, 2005
Net income	\$ 210	\$ 172
Other comprehensive (loss)/income:		
Net unrealized (losses)/gains in real estate investment trusts	(6)	12
Other comprehensive (loss) from discontinued operations	-	(1)
	(6)	11
Total comprehensive income	\$ 204	\$ 183

Accumulated Other Comprehensive Income/(Loss)

(\$ in millions)	Apr. 29, 2006	Apr. 30, 2005	Jan. 28, 2006	
Net unrealized gains in real estate investment trusts(1)		\$ 112	\$ 86	\$ 118
Nonqualified retirement plan minimum liability adjustment(2)	(102)	(102)	(102)	
Other comprehensive (loss) from discontinued operations		-	(105)(3)	-
Accumulated other comprehensive income/(loss)		\$ 10	\$ (121)	\$ 16

(1) Shown net of a deferred tax liability of \$60 million, \$47 million and \$64 million as of April 29, 2006, April 30, 2005 and January 28, 2006, respectively.

(2) Shown net of a deferred tax asset of \$65 million, \$66 million and \$65 million as of April 29, 2006, April 30, 2005 and January 28, 2006, respectively.

(3) Represents foreign currency translation adjustments related to Renner. A deferred tax asset was not established due to the historical reinvestment of earnings in the Company's Brazilian subsidiary.

9) Stock-Based Compensation

In May 2005, the Company's stockholders approved the J. C. Penney Company, Inc.

2005 Equity Compensation Plan (2005 Plan), which reserved an aggregate of 17.2 million shares of common stock for issuance to associates and non-employee directors. The 2005 Plan replaced the Company's 2001 Equity Compensation Plan (2001 Plan), and since June 1, 2005, all grants are made under the 2005 Plan. The 2005 Plan provides for grants to associates of options to purchase the Company's common stock, restricted and non-restricted stock awards (shares and units) and stock appreciation rights. The 2005 Plan also provides for grants of restricted and non-restricted stock awards (shares and units) and stock options to non-employee members of the Board. As of April 29, 2006, 15.1 million shares of stock were available for future grants.

Options are granted and priced according to a pre-defined calendar for incentive compensation purposes. Stock options and awards to associates typically vest over periods ranging from one to three years. The number of option shares is fixed at the grant date, and the exercise price of stock options is set at the market value of the Company's common stock on the date of grant. The 2005 Plan does not permit awarding stock options below grant-date market value. Options have a maximum term of 10 years. Over

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the past three years, the Company's annual stock option grants have averaged about 1.1% of total outstanding stock. The Company issues new shares upon the exercise of stock options.

The cost charged against income for all stock-based compensation was \$7 million and \$22 million for the quarters ended April 29, 2006 and April 30, 2005, respectively. The total income tax benefit recognized in the Consolidated Statements of Operations for stock-based compensation arrangements was \$3 million and \$8 million for the first quarters of 2006 and 2005, respectively. Compensation cost related to stock options for the first quarter of 2006 and 2005 was \$5 million and \$19 million (\$3 million and \$12 million after tax), respectively. Stock option expense for the first quarter 2005 reflected the early adoption of SFAS No. 123R.

Stock Options

On March 22, 2006, the Company granted approximately 1.5 million stock options to associates at an option price of \$60.50. As of April 29, 2006, options to purchase 10.3 million shares of common stock were outstanding. If all options were exercised, common stock outstanding would increase by 4.4%. Additional information regarding options outstanding as of April 29, 2006 follows:

(Shares in thousands; price is weighted-average exercise price)

<table>

	Exercisable			Unexercisable			Total Outstanding		
	Shares	%	Price	Shares	%	Price	Shares	%	Price
In-the-money	5,078	86%	\$ 31	4,369	100%	\$ 48	9,447	92%	\$ 39
Out-of-the-money(1)	858	14%	71	-	0%	-	858	8%	71
Total options outstanding	5,936	100%	\$ 37	4,369	100%	\$ 48	10,305	100%	\$ 42

</table>

(1) Out of the money options are those with an exercise price equal to or above the closing price of \$65.46 at the end of the first quarter of 2006.

As of April 29, 2006, unrecognized or unearned compensation expense for stock options, net of estimated forfeitures, was \$41 million, which will be recognized as expense over the remaining vesting period, which has a weighted-average term of approximately 1.3 years.

Stock Awards

The 2005 Plan also provides for grants of restricted and non-restricted stock awards (shares and units) to associates and non-employee members of the Board.

Associates

On March 22, 2006, the Company granted approximately 400,000 performance-based restricted stock unit awards to associates. The performance unit grant is a target award with a payout matrix ranging from 0% to 200% based on 2006 earnings per share (defined as per common share income from continuing operations,

excluding any unusual and/or extraordinary items as determined by the Human Resources and Compensation Committee of the Board). For an associate to receive 100% of the target award, the Company must generate 2006 earnings per share of \$4.26. In addition to the performance requirement, the award includes a time-based vesting requirement, under which one-third of the award vests on each of the first three anniversaries of the grant date provided that the associate remains continuously employed with the Company during that time. Upon vesting, the performance units are paid out in shares of JCPenney common stock.

As of April 29, 2006, there were 800,000 nonvested shares and units outstanding. Related to these associate stock awards, there was \$36 million of compensation cost not yet recognized or earned. That cost is expected to be recognized over the remaining vesting period, which has a weighted-average term of approximately 2.8 years.

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Non-Employee Members of the Board

Restricted stock awards (shares and units) for non-employee members of the Board are expensed when granted since they vest upon qualifying termination of service in accordance with the grant. Shares or units arising from these awards are not transferable until a director terminates service. No such awards were granted during the first quarters of 2006 or 2005.

10) Retirement Benefit Plans

Net Periodic Benefit Cost/(Credit)

The components of net periodic benefit cost/(credit) for the qualified and nonqualified pension plans and the postretirement plans for the 13 weeks ended April 29, 2006 and April 30, 2005 are as follows:

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Pension Plans

(\$ in millions)	Qualified		Supplemental (Nonqualified)		Postretirement Plans	
	13 weeks ended		13 weeks ended		13 weeks ended	
	Apr. 29, 2006	Apr. 30, 2005	Apr. 29, 2006	Apr. 30, 2005	Apr. 29, 2006	Apr. 30, 2005
Service cost	\$ 24	\$ 20	\$ -	\$ 1	\$ -	\$ 1
Interest cost	53	45	6	5	1	2
Expected return on plan assets		(92)	(73)	-	-	-
Net amortization	19	23	5	3	(7)	(5)
Net periodic benefit cost/(credit)	\$ 4	\$ 15	\$ 11	\$ 9	\$ (6)	\$ (2)

</table>

Employer Contributions

The Company did not make a discretionary contribution to its qualified pension plan in 2005 due to the plan's well-funded status and Internal Revenue Service rules limiting tax deductible contributions. In 2006, the Company does not expect to be required to make a contribution to its qualified pension plan under the Employee Retirement Income Security Act of 1974. Although no discretionary contributions have been made to the qualified pension plan during the first three months of 2006, the Company has factored into its plan a discretionary contribution later in 2006, which will depend on market conditions, the funded position of the pension plan and whether any legislative developments allow such a contribution to be tax deductible.

Postretirement Medical Benefits

Effective June 7, 2005, the Company amended its medical plan to reduce the Company-provided subsidy to post-age 65 retirees by 45% beginning January 1, 2006, and then fully eliminate the subsidy after December 31, 2006. This change resulted in an incremental credit of approximately \$6.5 million in fiscal 2005 and is expected to result in an additional \$8 million incremental credit in

fiscal 2006 to postretirement medical plan expense, which is a component of selling, general and administrative expenses.

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Retirement Benefit Plan Changes

The Company provides retirement and other postretirement benefits to substantially all employees (associates). Retirement benefits are an important part of the Company's total compensation and benefits program designed to attract and retain qualified and talented associates. The Company's retirement benefit plans consist of a non-contributory qualified defined benefit pension plan (pension plan), non-contributory supplemental retirement and deferred compensation plans for certain management associates, a 1997 voluntary early retirement program, a contributory medical and dental plan and a 401(k) and employee stock ownership plan. These plans are discussed in more detail in the Company's 2005 10-K. Associates hired or rehired on or after January 1, 2002 are not eligible for retiree medical or dental coverage.

Effective January 1, 2007, the Company is implementing certain changes to its retirement benefits. With respect to the 401(k) plan, all associates will be immediately eligible to participate in the plan and all eligible associates who have completed one year, and at least 1,000 hours, of service will be offered a fixed Company matching contribution of 50 cents on each dollar contributed up to 6% of pay. The Company may make an additional discretionary matching contribution each fiscal year end. This fixed plus discretionary match will replace the current Company contribution of an amount equal to 4.5% of available profits, plus discretionary contributions. The vesting period for Company matching contributions under the 401(k) plan will be changed to full vesting after three years from the current five-year pro rata vesting.

New associates hired on or after January 1, 2007 will not participate in the Company's pension plan but will be eligible for a new retirement account. This account will be a component of the defined contribution 401(k) plan that will receive a Company contribution equal to 2% of participants' annual pay after one year of service and will be fully vested after five years. Associates hired on or prior to December 31, 2006 will remain in the Company's pension plan.

11) Real Estate and Other (Income)/Expense

(\$ in millions)	13 weeks ended	
	Apr. 29, 2006	Apr. 30, 2005
Real estate activities	\$ (8)	\$ (9)
Net gains from sale of real estate	(3)	(14)
Asset impairments, PVOL and other unit closing costs	-	1
Other	(2)	-
Total	\$ (13)	\$ (22)

Real estate activities consist primarily of ongoing income from the Company's real estate subsidiaries. In addition, net gains were recorded from the sale of facilities and real estate that are no longer used in Company operations. For the first quarter of 2005, the gain from the sale of real estate was primarily from the sale of a vacant merchandise processing facility that was made obsolete by the centralized network of store distribution centers put in place by mid-2003.

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12) Guarantees

As of April 29, 2006, JCP had guarantees totaling \$46 million, which are described in detail in the 2005 10-K. These guarantees consist of: \$11 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 \$15 million for certain personal property leases assumed by the purchasers of Eckerd, which were previously reported as operating leases.

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

The following discussion, which presents the results of J. C. Penney Company, Inc. and its subsidiaries (the Company or JCPenney), should be read in conjunction with the Company's consolidated financial statements as of January 28, 2006, and for the year then ended, and related Notes and Management's Discussion and Analysis of Financial Condition and Results of Operations, all contained in the Company's Annual Report on Form 10-K for the year ended January 28, 2006 (the 2005 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. Unless otherwise indicated, all references to earnings per share (EPS) are on a diluted basis and all references to years relate to fiscal years rather than to calendar years.

Certain debt securities were issued by J. C. Penney Corporation, Inc. (JCP), the wholly owned operating subsidiary of the Company. The Company is a co-obligor (or guarantor, as appropriate) regarding the payment of principal and interest on JCP's outstanding debt securities. The guarantee by the Company of certain of JCP's outstanding debt securities is full and unconditional.

Key Items

- o Earnings per share from continuing operations increased 45% to \$0.90 in the first quarter of 2006 from \$0.62 in last year's first quarter. On a dollar basis, income from continuing operations increased nearly 25% to \$213 million in the first quarter of 2006, compared to \$171 million last year.
- o Net income per share increased to \$0.89 in the first quarter of 2006, compared to \$0.63 in the comparable 2005 period. Net income in the first quarter of 2006 reflected an after-tax charge of \$3 million, or \$0.01 on a per share basis, related to discontinued operations. Discontinued operations added \$1 million, or \$0.01 per share, to net income in the first quarter of 2005.
- o Operating profit was \$369 million, or 8.7% of sales, compared with \$308 million, or 7.5% of sales, last year. This represents an increase of approximately 20% on a dollar basis, or 120 basis points as a percent of sales.

	13 weeks ended	
(\$ in millions)	Apr. 29, 2006	Apr. 30, 2005
Gross margin	\$ 1,769	\$ 1,694
Selling, general and administrative (SG&A) expenses	1,400	1,386
Operating profit(1)	\$ 369	\$ 308

As a percent of sales

8.7%

7.5%

(1) Operating profit (gross margin less SG&A expenses), which is a non-GAAP (generally accepted accounting principles) measure, is the key measurement on which management evaluates the financial performance of the retail operations. Operating profit excludes Net Interest Expense, Bond Premiums and Unamortized Costs and Real Estate and Other. Real estate activities, gains and losses on the sale of real estate properties, asset impairments, other charges associated with closing store and catalog facilities and other corporate charges are evaluated separately from operations and are recorded in Real Estate and Other in the Consolidated Statements of Operations.

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- o Comparable department store sales increased 1.3% for the first quarter of 2006, on top of a 2.8% increase in last year's first quarter. This represented the twelfth consecutive quarter of comparable department store sales gains. Direct (Internet/catalog) sales increased 3.9% for the first quarter of 2006, with the Internet channel increasing approximately 22%. In last year's first quarter, Direct sales increased 5.4%, with the Internet channel increasing approximately 35%.
- o In February 2006, the JCPenney Board of Directors (Board) authorized a new \$750 million common stock repurchase program, which will be funded with 2005 free cash flow and cash proceeds from stock option exercises. The program is expected to be completed by the end of fiscal 2006. In addition, the Board authorized a plan to increase the annual dividend from \$0.50 per share to \$0.72 per share, a 44% increase, beginning with the May 1 quarterly dividend. On March 21, 2006, the Board declared a dividend of \$0.18 per share, which was paid on May 1, 2006.
- o During the first quarter of 2006, the Company attained investment grade credit rating status from both Standard & Poor's Ratings Services and Moody's Investors Service, Inc., resulting in investment grade ratings from all three credit rating agencies. On April 6, 2006, Standard & Poor's raised the Company's credit rating to an investment grade rating of BBB-, citing the Company's turnaround in the competitive department store sector. On February 16, 2006, Moody's raised its corporate family debt rating, as well as its credit rating on the Company's senior unsecured notes and debentures and its \$1.2 billion revolving credit facility, to an investment grade rating of Baa3, citing the Company's continued strong liquidity, healthy free cash flow generation and solid leverage and coverage metrics.
- o In April 2006, the Company announced a joint initiative with Sephora U.S.A., Inc. (Sephora), under which JCPenney will sell Sephora products in its stores and through the Internet. Sephora products will be the exclusive beauty offering at JCPenney, beginning in a limited number of stores in fall 2006. The Sephora departments in JCPenney stores will feature top brands from makeup, skincare, fragrance and accessory products carried in Sephora's stores across the United States. In addition, Sephora will exclusively service JCPenney customers' online beauty needs through a link to www.sephora.com from www.jcp.com.

- o Also in April 2006, the Company announced plans to accelerate its new store growth. Beginning in 2007, the Company plans to open 50 new stores annually, representing annual square footage growth of approximately 3%. New stores will be primarily in the off-mall format. Combined with planned new store openings for 2006, this would result in over 175 new stores by 2009.

Discontinued Operations

Discontinued operations reflected a charge of \$0.01 per share in the first quarter of 2006 related to management's ongoing review and true-up of Eckerd reserves. For the first three months of 2005, discontinued operations added \$0.01 per share to net income related to operating income for Lojas Renner S.A. (Renner), the Company's former Brazilian department store chain. The 2005 sale

of its shares of Renner is discussed below.

Lojas Renner S.A.

In July 2005, the Company's indirect wholly owned subsidiary, J. C. Penney Brazil, Inc., closed on the sale of its shares of Renner, a Brazilian department store chain, through a public stock offering registered in Brazil. The Company received net cash proceeds of approximately \$260 million from the sale of its interest in Renner. Proceeds from the sale were used for common stock repurchases, which are more fully discussed under Common Stock Repurchase and Debt Reduction Programs on page 26. The sale resulted in a cumulative pre-tax gain of \$26 million and a loss of \$7 million on an after-tax basis. For all periods

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presented, Renner's results of operations and financial position have been reclassified and reflected as a discontinued operation.

Eckerd Drugstores

During the first quarter of 2006, the Company recorded a \$3 million after-tax charge relating to the sale of its Eckerd drugstore operations, primarily related to taxes payable resulting from a state sales tax audit. Through the first quarter of 2006, the cumulative loss on the Eckerd sale was \$719 million pre-tax, or \$1,333 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.

The net cash proceeds of approximately \$3.5 billion from the Eckerd sale, which closed in the second quarter of 2004, were used for common stock repurchases and debt reduction, which are more fully discussed under Common Stock Repurchase and Debt Reduction Programs on page 26.

Upon closing on the sale of Eckerd on July 31, 2004, the Company established reserves for estimated transaction costs and post-closing adjustments. Certain of these reserves involved significant judgment and actual costs incurred over time could vary from these estimates. The more significant remaining estimates relate to the costs to exit the Colorado and New Mexico markets, assumption of the Eckerd Pension Plan and various post-employment benefit obligations and environmental indemnifications. Management continues to review and update the remaining reserves on a quarterly basis and believes that the overall reserves, as adjusted, are adequate at the end of the first quarter of 2006 and consistent with original estimates. Cash payments for the Eckerd-related reserves are included in the Company's Consolidated Statements of Cash Flows as Cash Paid for Discontinued Operations, with tax payments included in operating cash flows and all other payments, if applicable, included in investing cash flows.

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Results of Operations

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.

(\$ in millions, except EPS)	13 weeks ended	
	Apr. 29, 2006	Apr. 30, 2005
Retail sales, net	\$ 4,220	\$ 4,118
Gross margin	1,769	1,694
SG&A expenses	1,400	1,386
Operating profit(1)	369	308
Net interest expense	34	49
Bond premiums and unamortized costs	-	13
Real estate and other (income)	(13)	(22)

Income from continuing operations		
before income taxes	348	268
Income tax expense	135	97
Income from continuing operations	\$ 213	\$ 171
Diluted EPS from continuing operations	\$ 0.90	\$ 0.62
Ratios as a percent of sales:		
Gross margin	41.9%	41.1%
SG&A expenses	33.2%	33.6%
Operating profit(1)	8.7%	7.5%
Depreciation and amortization included		
in operating profit	\$ 88	\$ 87

(1) See definition of operating profit on page 16.

The Company continued to improve its profitability during the first quarter of 2006 as reflected in income from continuing operations of \$213 million, or \$0.90 per share, compared to \$171 million, or \$0.62 per share, for the comparable 2005 period. The increase over 2005 reflects improved operating profit, resulting from continued improvement in sales productivity, growth in gross margin and leveraging of selling, general and administrative (SG&A) expenses, combined with lower interest expense and bond premiums. Earnings per share for the first quarter of 2006 also benefited from the reduction in average shares outstanding compared to the prior year first quarter due to the Company's 2005 and 2004 common stock repurchase programs, which were completed in the fourth quarter of 2005. The Company currently expects 2006 second quarter and full year earnings per share from continuing operations to be approximately \$0.62 and \$4.24 to \$4.34, respectively.

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Retail Sales, Net

(\$ in millions)

	13 weeks ended	
	Apr. 29, 2006	Apr. 30, 2005
Retail sales, net	\$ 4,220	\$ 4,118

Sales percent increase:

Comparable department stores(1)	1.3%	2.8%
Total department stores	2.2%	3.4%
Direct (Internet/catalog)	3.9%	5.4%

(1) Comparable department store sales include sales of stores after having been open for 12 full consecutive fiscal months. For the first quarter of 2006, the five stores that were closed for an extended period from the effects of Hurricanes Katrina and Rita are not included in the comparable store sales calculation. As of April 29, 2006, all but one of these stores had reopened. New and relocated stores, and the reopened stores impacted by the hurricanes, become comparable on the first day of the 13th full fiscal month of operation.

Comparable department store sales increased 1.3% for the first quarter of 2006, and total department store sales increased 2.2%. These first quarter increases were on top of increases of 2.8% for comparable department store sales and 3.4% for total department store sales for the first quarter of 2005. First quarter 2006 sales reflect good customer response to both fashion and basic merchandise and the Company's key private brands continue to perform well. First quarter sales reflect improvements in nearly all merchandise divisions, led by children's apparel, family footwear and fine jewelry, but the Company experienced some softness in women's apparel sales. Management has taken action to keep women's apparel inventory fresh and remains focused on building key brands and adding new brands, such as a.n.a(TM), a modern casual women's apparel line, to provide customers with a meaningful assortment. In Fall 2006, the Company plans to introduce East 5th, a line of traditional women's career wear. From a regional perspective, for the first quarter of 2006, the strongest

performance was in the southeastern and western regions of the country. Department store sales have continued to benefit from positive customer response to the style, quality, selection and value offered in the Company's merchandise assortments, compelling marketing programs and continued improvement in the store shopping experience.

Direct sales, which offer customers multi-channel convenience and a broader merchandise selection complementing that carried in the Company's department stores, increased 3.9% in the first quarter of 2006, on top of a 5.4% increase in last year's first quarter. Direct sales continue to reflect a focus on targeted specialty media and the expanded assortments and convenience of the Internet. The Direct channel represented approximately 16% of total net retail sales in both the first quarters of 2006 and 2005. Consistent with customer shopping patterns, the Company continually reviews its catalog page counts and circulation to ensure that print catalogs remain productive, while planning for a gradual shift toward a higher level of shopping via the Internet. The Internet channel continues to experience strong sales growth, increasing approximately 22% in the current quarter, on top of an approximately 35% increase in last year's first quarter. Internet sales represented approximately 40% of total Direct sales for the first quarter of 2006, up from approximately 34% in last year's first quarter.

As part of its 2005-2009 Long Range Plan, the Company has implemented lifestyle merchandising that reflects its customers' style preferences - conservative, traditional, modern and trendy - making JCPenney more relevant to an expanded customer base. The Company will continue to enhance its strong private, exclusive and national brands that develop customer loyalty by focusing its merchandise more closely on each of the customer lifestyles. Additional resources are being focused on the Company's branding efforts to ensure consistency in product design, packaging, in-store presentation,

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lifestyle marketing and point-of-sale support. The brands launched in early 2006 and in 2005 are the result of these merchandising initiatives.

In early 2006, the Company launched a number of new merchandise lines, including Solitude(R) by Shaun Tomson, a California lifestyle-inspired men's apparel brand, and Rule by Steve Madden(TM) in family footwear. The Company has also introduced the Miss Bisou(R) clothing collection for juniors, an extension of the Bisou Bisou(R) women's sportswear line, and Studio by the JCPenney Home Collection(TM), a modern furniture collection. Also in 2006, the Company added the Chris Madden(R) Hotel Collection, which features silk-blend comforters and 600 thread count sheets.

Management is pleased with customer response and sales results for the Company's new merchandise launches as well as the performance of the expanded Chris Madden offerings.

For the second quarter, both comparable store sales and Direct sales are expected to increase low single digits.

Gross Margin

Gross margin improved 80 basis points as a percent of sales in this year's first quarter to \$1,769 million, compared to \$1,694 million in the comparable 2005 period, reflecting continued strength in the performance of the Company's private brands, better management of inventory flow and seasonal transition and leverage in the centralized buying and merchandising process. The continued development of the Company's planning and allocation systems has also supported the margin improvements.

SG&A Expenses

SG&A expenses in this year's first quarter were \$1,400 million, compared to \$1,386 million in last year's first quarter. Expenses continued to be well leveraged, improving by 40 basis points as a percent of sales. First quarter 2006 SG&A reflected leveraging of salary costs and efficiencies in the Direct channel, which were partially offset by higher marketing costs, including costs related to the launch of the Company's new branding campaign in March.

Operating Profit

Operating profit for the first quarter of 2006 increased approximately 20% to \$369 million, or 8.7% of sales, compared to \$308 million, or 7.5% of sales, for

the comparable period last year. Operating profit (gross margin less SG&A expenses) is the key measurement on which management evaluates the financial performance of the retail operations.

Net Interest Expense

Net interest expense was \$34 million and \$49 million for the first quarters of 2006 and 2005, respectively. Net interest expense consists primarily of interest expense on long-term debt, net of interest income earned on cash and short-term investments. Net interest expense in the first quarter of 2006 benefited from higher short-term interest rates on cash and short-term investment balances, as well as the reduction in long-term debt. This year's average long-term borrowings for the first quarter were \$447 million lower than last year's due to progress made under the Company's debt reduction program. Total debt was reduced by \$2.14 billion under this program, which was initiated in 2004 and completed by the end of the second quarter of 2005.

Bond Premiums and Unamortized Costs

No bond premiums, commissions or unamortized costs were incurred during the first quarter of 2006. During the first quarter of 2005, the Company incurred \$13 million of bond premiums, commissions and unamortized costs related to the purchase of debt in the open market under its debt reduction program, which is discussed on page 26.

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Real Estate and Other (Income)

Real Estate and Other (Income) consists of ongoing real estate activities, gains and losses on the sale of real estate properties, asset impairments, other charges associated with closing store and catalog facilities and other non-operating items. Real Estate and Other for the first quarter of 2006 resulted in a credit of \$13 million, which consisted of an \$8 million credit for ongoing real estate operations, \$3 million of gains on the sale of closed units and a \$2 million credit related to other corporate items. Real Estate and Other for the first quarter of 2005 resulted in a credit of \$22 million, which consisted of a \$9 million credit for real estate operations, \$14 million of gains on the sale of closed units, primarily a vacant merchandise processing facility, and \$1 million of costs related to asset impairments, the present value of operating lease obligations (PVOL) and other costs of closed stores.

Income Taxes

The Company's effective income tax rate for continuing operations was 38.8% for the first quarter of 2006, compared with 36.2% for the first quarter of 2005. The rate increase is primarily due to a higher state income tax rate from the reversal of the state tax net operating loss valuation allowance in the fourth quarter of 2005, which accelerated recognition of state tax benefits into 2005. In addition, the rate increase reflects the December 31, 2005 expiration of the Work Opportunity Tax Credit, a federal tax credit that may be extended by Congress later in 2006. Management expects a lower tax rate in the second quarter, including the impact of expected tax credits, resulting in a planned effective tax rate for the full year 2006 of approximately 37%.

Merchandise Inventory

Merchandise inventory was \$3,355 million at April 29, 2006, compared to \$3,258 million at April 30, 2005 and \$3,210 million at January 28, 2006. With an increase of 3.0% compared to last year, inventory at the end of the first quarter of 2006 was in line with plan, reflecting increases associated with new stores and the growth of private brands, was well managed and reflected current seasonal merchandise with a good balance between fashion and basics. With new systems and its network of store distribution centers, the Company has continued to enhance its ability to allocate and flow merchandise to stores in-season by recognizing sales trends earlier and adjusting receipts, replenishing individual stores based on rates of sale and consistently providing high in-stock levels in basics and advertised items. This continued improvement of inventory management has helped to drive more profitable sales. With the elimination of global trade quotas on apparel and textiles, the Company expects to concentrate production of private brand merchandise in fewer countries and with fewer manufacturers. On an ongoing basis, the Company develops contingency plans to provide for alternate sources for product in order to ensure uninterrupted access to merchandise. Cost reductions will allow the Company to invest in higher quality merchandise and thereby improve the value proposition to the Company's target customer.

Financial Goals

The Company's financial strategy will continue to focus on opportunities to deliver value to stockholders, strengthen the Company's financial position and improve its credit profile. In order for the Company to achieve its objective of becoming a leader in performance and execution, long-range planning targets have been established related to operating financial goals, key financial metrics, cash flow, credit ratings, dividends and earnings per share growth. As announced at the Company's April 2006 Analyst Meeting, the Company's long range plan includes certain financial targets, strategic store growth and private brand initiatives, and programs such as the \$750 million common stock repurchase program for 2006 and a competitive dividend, including the recently announced 44% increase in annual dividends from \$0.50 per share to \$0.72 per share. Financial targets include comparable department store sales increases in the low single digits, Direct sales increases in the low to mid single digits, gross

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margin approximating 40% of sales, SG&A expenses under 30% of sales, an operating profit margin of 10% to 10.5% of sales by 2009 and annual earnings per share growth of approximately 16% over the 2006 to 2009 period. The Company's progress toward achieving its operating financial goals could be impacted by various risks, which are discussed in the Company's 2005 10-K and in Part II, Item 1A, Risk Factors, on page 30.

Liquidity and Capital Resources

The Company ended the first quarter with approximately \$2.8 billion in cash and short-term investments, which represented approximately 80% of the \$3.5 billion of outstanding long-term debt, including current maturities. Cash and short-term investments included restricted short-term investment balances of \$56 million as of April 29, 2006, which are pledged as collateral for a portion of casualty insurance program liabilities. During the remainder of 2006, the Company plans to use \$750 million of the balance of cash and short-term investments to complete the new common stock repurchase program that was approved by the Board in February 2006. The Company's next scheduled long-term debt maturities are in 2007 and approximate \$425 million.

The Company, JCP and J. C. Penney Purchasing Corporation are parties to a five-year \$1.2 billion unsecured revolving credit facility (2005 Credit Facility) with a syndicate of lenders with JPMorgan Chase Bank, N.A., as administrative agent. The 2005 Credit Facility includes a requirement that the Company maintain, as of the last day of each fiscal quarter, a maximum ratio of Funded Indebtedness to Consolidated EBITDA (Leverage Ratio, as defined in the 2005 Credit Facility), as measured on a trailing four-quarters basis, of no more than 3.0 to 1.0. Additionally, the 2005 Credit Facility requires that the Company maintain, for each period of four consecutive fiscal quarters, a minimum ratio of Consolidated EBITDA plus Consolidated Rent Expense to Consolidated Interest Expense plus Consolidated Rent Expense (Fixed Charge Coverage Ratio, as defined in the 2005 Credit Facility) of at least 3.2 to 1.0. As of April 29, 2006, the Company's Leverage Ratio was 1.7 to 1.0, and its Fixed Charge Coverage Ratio was 5.9 to 1.0, both in compliance with the requirements.

Cash Flows

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

(\$ in millions)

	13 weeks ended	
	Apr. 29, 2006	Apr. 30, 2005
Net cash (used in)/provided by:		
Operating activities	\$ (119)	\$ 34
Investing activities	(121)	(81)

Financing activities	22	(416)	
Cash (paid) for discontinued operations(1)	(7)	(71)	
	-----	-----	
Net (decrease) in cash and short-term investments	\$ (225)	\$ (534)	
	=====	=====	

(1) See the Company's Consolidated Statements of Cash Flows on page 4 for a breakdown of cash (paid) for discontinued operations among operating, investing and financing activities.

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Cash Flow from Operating Activities

While improved operating performance in the first quarter of 2006 positively impacted cash flows from operating activities, operating cash flows were also impacted by higher payments related to income taxes, as well as higher cash contributions to the Company's 401(k) savings plan.

Cash Flow from Investing Activities

Capital expenditures were \$126 million for the first quarter of 2006, compared with \$97 million for the first quarter of 2005. Capital spending was principally for new stores, store renewals and modernizations and new point-of-sale technology. During the first quarter of 2006, the Company opened two new stores and relocated one store. The majority of new store openings for 2006 are planned for the third quarter. To date, the Company has implemented the new point-of-sale technology in approximately 70% of its stores and expects this technology to be in all stores by the end of the second quarter of 2006. Management continues to expect total capital expenditures for the full year to be in the area of \$800 million.

Proceeds from the sale of closed units were \$5 million for the first three months of 2006, compared with \$16 million for the first three months of 2005.

Cash Flow from Financing Activities

For the first quarter of 2006, cash payments for long-term debt, including capital leases, totaled \$3 million. During the first quarter of 2005, such payments totaled \$138 million and also included premiums and commissions paid by the Company related to its debt reduction program, which is discussed on page 26.

No common stock repurchases were made during the first quarter of 2006. During the first quarter of 2005, the Company repurchased 7.7 million shares of common stock for \$360 million, \$93 million of which was settled after the end of the quarter. In addition, \$51 million of cash was paid during the first quarter of 2005 for settlement of 2004 share repurchases. Common stock is retired on the same day it is repurchased, and the related cash settlements are completed on the third business day following the repurchase.

Net proceeds from the exercise of stock options were \$54 million and \$75 million for the first quarters of 2006 and 2005, respectively.

A quarterly dividend of \$0.125 per share, or \$29 million in total, was paid on the Company's outstanding common stock on February 1, 2006 to stockholders of record on January 10, 2006. In February 2006, the Board authorized a plan to increase the quarterly common stock dividend to \$0.18 per share (\$0.72 per share on an annual basis), beginning with the May 1, 2006 dividend. On March 21, 2006, the Board declared a quarterly dividend of \$0.18 per share, which was paid on May 1, 2006 to stockholders of record on April 10, 2006. Dividends are paid when, as and if declared by the Board.

For the remainder of 2006, management believes that cash flow generated from operations, combined with existing cash and short-term investments, will be adequate to execute the \$750 million common stock repurchase program 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 2006. 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. The Company's cash flows may be impacted by many factors, including the

competitive conditions in the retail industry and the effects of the current economic environment and consumer confidence. Based on the nature of the Company's business, management considers the above factors to be normal business risks.

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Based on improvements in the capital structure and in the Company's related liquidity and coverage metrics, as well as the Company's improved operating performance and generation of free cash flow, both Standard & Poor's Ratings Services and Moody's Investors Service, Inc. raised the Company's credit ratings to investment grade during the first quarter of 2006. In April 2006, Standard & Poor's raised its credit rating on the Company's long-term corporate credit and senior unsecured debt from BB+ to an investment grade rating of BBB-, and in February 2006, Moody's raised its corporate family debt rating, as well as its senior unsecured credit rating for the Company, from Ba1 to an investment grade rating of Baa3. In October 2005, Fitch Ratings raised its credit rating on the Company's senior unsecured notes and debentures and its \$1.2 billion 2005 Credit Facility from BB+ to BBB-, an investment grade credit rating. As of the end of the first quarter of 2006, all three credit rating agencies have an outlook of "Stable" on the Company's credit ratings.

Additional liquidity strengths include the 2005 Credit Facility discussed previously. No borrowings, other than the issuance of trade and standby letters of credit, which totaled \$132 million as of the end of the first quarter of 2006, have been, or are expected to be, made under this facility.

Free Cash Flow from Continuing Operations

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(\$ in millions)

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13 weeks ended

Apr. 29, Apr. 30,
2006 2005

Net cash (used in)/provided by operating activities (GAAP)	\$ (119)	\$ 34
Less:		
Capital expenditures	(126)	(97)
Dividends paid	(29)	(35)
Plus:		
Proceeds from sale of assets	5	16
Free cash flow from continuing operations (non-GAAP measure)	\$ (269)	\$ (82)

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In addition to cash flow from operating activities, management evaluates free cash flow from continuing operations, an important financial measure that is widely used by investors, the rating agencies and banks. Free cash flow from continuing operations is defined as cash (used in)/provided by operating activities less dividends and capital expenditures, net of proceeds from the sale of assets. The Company's calculation of free cash flow may differ from that used by other companies and therefore, comparability may be limited. While free cash flow is a non-GAAP financial measure, it is derived from components of the Company's consolidated GAAP cash flow statement.

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. Positive free cash flow generated by a company indicates the amount of cash available for reinvestment in the business, or cash that can be returned to investors through increased dividends, stock repurchase programs, debt retirements or a combination of these. Conversely, negative free cash flow indicates the amount of cash that must be raised from investors through new debt or equity issues, reduction in available cash balances or a combination of these. Based on the seasonality of the Company's business, cumulative free cash flow is generally negative the first three quarters of the year and becomes positive in the fourth quarter.

For the first quarter of 2006, free cash flow from continuing operations was in line with management's expectations, reflecting a deficit of \$269 million, compared to a deficit of \$82 million for the comparable 2005 period. The

decrease in free cash flow was due to higher payments related to income taxes, as well as higher cash contributions to the Company's 401(k) savings plan, combined with the planned increase in

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capital expenditures. The Company continues to expect to generate approximately \$200 million of positive free cash flow for the full year of 2006.

Common Stock Repurchase and Debt Reduction Programs

In February 2006, the Board authorized a new program of common stock repurchases of \$750 million, which will be funded with 2005 free cash flow and cash proceeds from stock option exercises. By the end of 2005, the Company had completed its 2005 and 2004 equity and debt reduction programs, which focused on enhancing stockholder value, strengthening the Company's capital structure and improving its credit rating profile. The Company used the \$3.5 billion in net cash proceeds from the sale of the Eckerd drugstore operations, \$260 million in net cash proceeds from the sale of its shares of Renner, cash proceeds and tax benefits from the exercise of employee stock options and existing cash and short-term investment balances to fund the programs, which consisted of common stock repurchases, debt reduction and redemption, through conversion to common stock, of all outstanding shares of the Company's Series B ESOP Convertible Preferred Stock.

Common Stock Repurchases

No common stock was repurchased during the first quarter of 2006 due to the planned announcements of important strategic initiatives, primarily the Sephora initiative, accelerated store growth and increased EPS growth targets, which were announced in mid-April. Management continues to expect to complete the current \$750 million program by the end of 2006.

Under the Company's 2005 and 2004 common stock repurchase programs, which were completed in the fourth quarter of 2005, a total of 94.3 million shares were repurchased at a cost of \$4.15 billion.

Debt Reduction

The Company's debt reduction programs, which were completed by the end of the second quarter of 2005, consisted of approximately \$2.14 billion of debt reductions. The Company incurred pre-tax charges of \$13 million in the first quarter of 2005 related to these early debt retirements.

Common Stock Outstanding

During the first quarter of 2006, the number of outstanding shares of common stock changed as follows:

(in millions)	Outstanding Common Shares
Balance as of January 28, 2006	233
Exercise of stock options	2
Balance as of April 29, 2006	235

Accounting for Stock-Based Compensation

The Company has a stock-based compensation plan that provides for grants to associates of stock awards (restricted or unrestricted stock or units), stock appreciation rights or options to purchase the Company's common stock. Options are granted and priced according to a pre-defined calendar for incentive compensation purposes. Effective January 30, 2005, the Company adopted Statement of Financial Accounting Standards No. 123 (revised), "Share-Based Payment" (SFAS No. 123R), which requires the use of the fair value method of accounting for all stock-based compensation, including stock options. The statement was adopted using the modified prospective method of application. Under this method, in addition to reflecting compensation expense for new share-based awards, expense is also recognized to

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reflect the remaining vesting period of awards that had been included in pro-forma disclosures in prior periods. The Company did not adjust prior year financial statements under the optional modified retrospective method of application.

Prior to fiscal year 2005, the Company used the Black-Scholes option pricing model to estimate the grant date fair value of stock option awards. For grants subsequent to the adoption of SFAS No. 123R, the Company estimates the fair value of stock option awards on the date of grant using a binomial lattice model developed by outside consultants who worked with the Company in the implementation of SFAS No. 123R. The Company believes that the binomial lattice model is a more accurate model for valuing employee stock options since it better reflects the impact of stock price changes on option exercise behavior.

The cost charged against income for all stock-based compensation was \$7 million and \$22 million for the first quarters of 2006 and 2005, respectively, or \$4 million and \$14 million after tax. Of these amounts, compensation expense attributable to stock options was \$5 million and \$19 million, respectively (\$3 million and \$12 million after tax) for the first quarters of 2006 and 2005.

As of April 29, 2006, there was \$41 million and \$36 million of compensation cost not yet recognized or earned related to stock options and associate restricted stock (share and unit) awards, respectively. These expenses are expected to be recognized as earned over weighted-average periods of 1.3 years and 2.8 years, respectively.

Retirement Benefit Plans

As part of the Company's long range plan, a project was initiated to review the Company's employee benefit programs, including the pension and savings plans. The overarching goal was to provide competitive benefits that are cost effective for both the Company and its associates, while achieving one of the key strategies of making JCPenney a great place to work. As a result of this review, in April 2006, the Company's Board of Directors approved several benefit plan changes. These changes include a fixed Company matching contribution to the Company's 401(k) defined contribution plan replacing the current profit-sharing based matching contribution. In addition, the Company will establish a new retirement account, within the savings plan, for new associates in lieu of participation in the Company's existing defined benefit pension plan (pension plan), which will remain in place for associates hired on or prior to December 31, 2006. As reported in the Company's 2005 10-K, the Company's existing pension plan remains well funded with the fair value of assets exceeding the projected benefit obligation by \$518 million as of year-end 2005. While well funded, the Company's pension plan is subject to the impact of market and interest rate volatility. These benefit plan changes were communicated to associates in May 2006, and will be effective beginning in 2007. See further discussion in Note 10.

These benefit plan changes are not expected to have an impact on fiscal year 2006 retirement benefit plan expense. Going forward, they are also not expected to have a material impact on the Company's financial condition, liquidity, cash flow or results of operations.

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.

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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 assets; estimation of reserves and valuation allowances specifically related to closed stores, insurance, income taxes, litigation and environmental contingencies; and pension accounting. Actual results may differ from these estimates under different assumptions or conditions. For a further discussion of the judgments management makes in applying its accounting policies, see Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, in the 2005 10-K.

Recently Issued Accounting Pronouncements

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 2006, the Audit Committee of the Board approved estimated fees for the remainder of 2006 related to the performance of both audit, including Sarbanes-Oxley Section 404 attestation work, as well as allowable non-audit services by the Company's external auditors, KPMG LLP.

Seasonality

The results of operations and cash flows for the 13 weeks ended April 29, 2006 are not necessarily indicative of the results for the entire year. The Company's annual earnings depend to a great extent on the results of operations for the last quarter of its fiscal year when a significant portion of the Company's sales and profits are recorded.

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. The Company's market risks related to interest rates at April 29, 2006 are similar to those disclosed in the 2005 10-K.

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 were no changes in the Company's internal control over financial reporting during the Company's first quarter ended April 29, 2006, 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, which reflect the Company's current view of future events and financial performance.

The words expect, plan, anticipate, believe, intent, should, will and similar expressions identify forward-looking statements. Any such forward-looking statements are subject to 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, including the price and

availability of oil and natural gas, impact of changes in consumer credit payment terms, changes in management, retail industry consolidations, acts of terrorism or war and government activity. Please refer to the Company's 2005 Annual Report on Form 10-K and subsequent filings for a further discussion of risks and uncertainties. The Company intends the forward-looking statements in this Quarterly Report on Form 10-Q to speak only at the time of its release and does not undertake to update or revise these forward-looking statements as more information becomes available.

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

Gayle G. Pitts, et al v. J. C. Penney Direct Marketing Services, Inc., AEGON

Direct Marketing Services, Inc., and J. C. Penney Life Insurance Company n/k/a

Stonebridge Insurance Company, No. 01-03395-F, in the 214th Judicial District

Court of Nueces County, Texas; and Appellant(s): Stonebridge Life Insurance

Company f/k/a J. C. Penney Life Insurance Company, J. C. Penney Direct Marketing

Services, Inc., and AEGON Direct Marketing Services, Inc. v. Gayle G. Pitts, et

al, No. 13-05-131-CV, in the Court of Appeals for the Thirteenth District of

Texas.

This matter, which was previously reported in the 2005 Form 10-K for the fiscal year ended January 28, 2006, is a class action lawsuit involving the sale of J. C. Penney Life Insurance accidental death and dismemberment insurance over the telephone.

In September 2002, the trial court certified the lawsuit as a national class action. On July 15, 2004, the Court of Appeals for the Thirteenth District of Texas reversed the certification order and remanded the case to the trial court. Plaintiffs filed a second supplemental motion for Class Certification, this time seeking a Texas class only. On January 31, 2005, the trial court granted the motion, certifying a Texas class. Following appeal of the trial court order by the defendants, on May 18, 2006, the Court of Appeals for the Thirteenth District of Texas upheld the trial court's certification of a class of Texas consumers who purchased the accidental death and dismemberment insurance products between 1996 and the certification date. The defendants plan to appeal the decision of the Court of Appeals to the Supreme Court of Texas.

Although it is too early to predict the outcome of this lawsuit, management is of the opinion that it should not have a material adverse effect on the Company's consolidated financial position or results of operations.

Item 1A. Risk Factors.

In addition to the risk factors previously disclosed in Part I, Item 1A of the Form 10-K for the fiscal year ended January 28, 2006, the Company has identified the following new risk factor:

The failure to successfully execute the Company's new store growth strategy could adversely impact the Company's future growth and profitability.

The Company's plans to accelerate the growth of new stores, primarily in the off-mall format, depend in part on the availability of existing retail stores or store sites on acceptable terms. The Company competes with other retailers and businesses for suitable locations for its stores. Local land use and other regulations may impact the Company's ability to find suitable locations. In addition, increases in real estate, construction and development costs could limit the Company's growth opportunities and adversely impact its return on

investment. The inability to execute the Company's new store growth strategy in a manner that generates appropriate returns on investment could have an adverse impact on the Company's future growth and profitability.

Except as otherwise specified herein, there have been no material changes to the risk factors set forth under Part I, Item 1A of the 2005 Form 10-K.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

(c) Issuer Purchases of Securities

The Company did not repurchase any shares of its common stock during the quarter ended April 29, 2006. In February 2006, the Board of Directors approved a new common stock repurchase program of up to \$750 million. This program, which the Company announced on February 16, 2006, has no expiration date but is expected to be completed by the end of fiscal year 2006.

Item 6. Exhibits.

Exhibit Nos.

3.1 Restated Certificate of Incorporation of the Company as amended
May 19, 2006

3.2 Bylaws of the Company, as amended to May 19, 2006

10.1 J. C. Penney Corporation, Inc. Change in Control Plan
(incorporated by reference to Exhibit 10.1 of the Company's
Current Report on Form 8-K dated March 27, 2006)

10.2 Form of Termination Pay Agreement (incorporated by reference to
Exhibit 10.2 of the Company's Current Report on Form 8-K dated
March 27, 2006)

10.3 2006 Base Salary, 2006 Target Incentive Opportunity, and 2005
Incentive Compensation Table (incorporated by reference to
Exhibit 10.3 of the Company's Current Report on Form 8-K dated
March 27, 2006)

10.4 Form of Notice of Grant of Stock Options under the J. C. Penney
Company, Inc. 2005 Equity Compensation Plan (incorporated by
reference to Exhibit 10.4 of the Company's Current Report on Form
8-K dated March 27, 2006)

10.5 Form of Notice of Performance Unit Grant (incorporated by
reference to Exhibit 10.5 of the Company's Current Report on Form
8-K dated March 27, 2006)

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

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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/ W. J. Alcorn

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

Date: June 7, 2006

Exhibit 3.1
CERTIFICATE OF AMENDMENT

OF

RESTATED CERTIFICATE OF INCORPORATION

J. C. Penney Company, Inc., a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware (herein referred to as the Company), does hereby certify:

First: That at a meeting of the Board of Directors of the Company held on March 21, 2006, resolutions were duly adopted setting forth proposed amendments to the Restated Certificate of Incorporation of the Company, declaring said amendments to be advisable and directing that said amendments be submitted for consideration by stockholders at the Annual Meeting of Stockholders of the Company to be held on May 19, 2006. The resolutions setting forth the proposed amendments are as follows:

RESOLVED that the Board of Directors adopts and declares advisable, amendments to Articles Sixth and Ninth of the Company's Restated Certificate of Incorporation ("Charter Amendments"), in the form submitted to the meeting:

Article Sixth shall be amended to read in its entirety as follows:

Sixth: (a) Except as otherwise provided for or fixed by or pursuant to the provisions of Article Fourth of this Certificate of Incorporation relating to the rights of the holders of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation to elect additional directors under specified circumstances, the number of directors of the Company shall be fixed from time to time by or pursuant to the Bylaws of the Company. Subject to the provisions of this Article Sixth below, until the 2009 annual meeting of stockholders when the following classification shall cease, the directors, other than those who may be elected pursuant to the

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aforesaid provisions of said Article Fourth, shall be classified, with respect to the time for which they severally hold office, into three classes, as nearly equal in number as possible, as shall be provided in the manner specified in the Bylaws of the Company, the first such class to be originally elected for a term expiring at the annual meeting of stockholders to be held in 1986, the second such class to be originally elected for a term expiring at the annual meeting of stockholders to be held in 1987, and the third such class to be originally elected for a term expiring at the annual meeting of stockholders to be held in 1988, with each director in each class to hold office until his or her successor is elected and qualified. At each annual meeting of stockholders until the 2007 annual meeting of stockholders, the successors of the class of directors whose term expires at that meeting shall be elected to hold office for a term expiring at the annual meeting of stockholders to be held in the third year following the year of their election, with each director in each such class to hold office until his or her successor is elected and qualified. Directors elected at and after the 2007 annual meeting of stockholders shall hold office until the first annual meeting of stockholders following their election and until a successor shall have been elected and qualified or until the director's prior death, resignation or removal.

(b) Advance notice of stockholder nominations for the election of directors shall be given in the manner provided by the Bylaws of the Company at the time in effect.

(c) Except as otherwise provided for or fixed by or pursuant to the provisions of Article Fourth of this Certificate of Incorporation relating to the rights of the holders of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation to elect additional directors under specified circumstances, newly-created directorships resulting from any increase in the number of directors and any vacancies on the

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Board of Directors resulting from death, resignation, disqualification, removal, or other cause shall be filled only by the affirmative vote of a majority of the remaining directors then in office, even though less than a quorum of the Board of Directors. Any director elected in accordance with the preceding sentence shall hold office until the next succeeding annual meeting of stockholders following such director's election and until such director's successor shall have been elected and qualified, including in circumstances where such director's predecessor was elected to a longer term. No decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director.

(d) Except as otherwise provided for or fixed by or pursuant to the provisions of Article Fourth of this Certificate of Incorporation relating to the rights of the holders of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation to elect additional directors under specified circumstances, any director may be removed from office, with or without cause, but only by the affirmative vote of at least 80% of the combined voting power of the then-outstanding shares of all classes and series of stock of the Company entitled to vote generally in the election of directors ("Voting Stock"), voting together as a single class (it being understood that for the purposes of this Article Sixth, each share of the Voting Stock shall have the number of votes granted to it in accordance with Article Fourth of this Certificate of Incorporation).

(e) Notwithstanding anything contained in this Certificate of Incorporation to the contrary, the affirmative vote of at least a majority of the combined voting power of the Voting Stock, voting together as a single class, shall be required to alter, amend, or repeal, or adopt any provision inconsistent with, this Article Sixth.

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Article Ninth shall be amended to read in its entirety as follows:

Ninth: The Board of Directors shall have the power to make, alter, amend, or repeal, or adopt any provision inconsistent with, the Bylaws (except insofar as the Bylaws adopted by the stockholders shall otherwise provide). Any Bylaws made by the directors under the powers conferred hereby may be altered, amended, or repealed, and any provisions inconsistent therewith may be adopted, by the directors or by the stockholders. Notwithstanding the foregoing and anything contained in this Certificate of Incorporation to the contrary, Section 2 of Article II, and Sections 12 and 15 of Article III of the Bylaws, all as in effect simultaneously with the effectiveness of this Article, shall not be altered, amended, or repealed, and no provision inconsistent therewith shall be adopted, without the affirmative vote of at least 80% of the combined voting power of the then-outstanding shares of all classes and series of stock of the Company entitled to vote generally in the election of directors ("Voting Stock"), voting together as a single class (it being understood that for the purposes of this Article Ninth, each share of the Voting Stock shall have the number of votes granted to it in accordance with Article Fourth of this Certificate of Incorporation). Notwithstanding anything contained in this Certificate of Incorporation to the contrary, the affirmative vote of at least 80% of the Voting Stock, voting together as a single class, shall be required to alter, amend, or repeal, or adopt any provision inconsistent with, this Article Ninth.

Second: That thereafter, pursuant to resolution of its Board of Directors, at the Annual Meeting of Stockholders of the Company duly called and held on May 19, 2006, upon notice in accordance with Section 222 of the General Corporation Law of the State of Delaware, the necessary number of shares as required by statute and the Company's Restated Certificate of Incorporation were voted in favor of the amendments.

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Third: That the amendments were duly adopted in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, the Company has caused this Certificate of Amendment to be executed this 19th day of May 2006.

J. C. Penney Company, Inc.

/s/ Joanne L. Bober

By: Joanne L. Bober
Executive Vice President,
General Counsel and Secretary

RESTATED CERTIFICATE OF INCORPORATION
OF
J. C. PENNEY COMPANY, INC.

* * * * *

The present name of the company is J. C. Penney Company, Inc. The company was incorporated under the name "J. C. Penney Holdings, Inc." by the filing of its original Certificate of Incorporation with the Secretary of State of the State of Delaware on January 22, 2002. This Restated Certificate of Incorporation of the company only restates and integrates and does not further amend the provisions of the company's Restated Certificate of Incorporation and there is no discrepancy between the provisions of the company's Restated Certificate of Incorporation and the provisions of this Restated Certificate of Incorporation. This Restated Certificate of Incorporation was duly adopted in accordance with the provisions of Section 245 of the General Corporation Law of the State of Delaware. The Restated Certificate of Incorporation of the company is hereby restated to read in its entirety as follows:

First: The name of the corporation (which is herein referred to as the Company) shall be J. C. Penney Company, Inc.

Second: The address of the Company's registered office in the State of Delaware is Corporation Trust Center, 1209 Orange Street, City of Wilmington, County of New Castle Delaware 19801. The name of the Company's registered agent at such address is The Corporation Trust Company.

Third: The purpose of the Company is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware.

Fourth: The total number of shares of all classes of stock which the Company shall have authority to issue is 1,275,000,000 shares, of which 25,000,000 shares shall be shares of Preferred Stock without par value (hereinafter called Preferred Stock) and 1,250,000,000 shares shall be shares of Common Stock of 50(cen) par value (hereinafter called Common Stock).

Authority is hereby expressly granted to the Board of Directors from time to time to issue the Preferred Stock as Preferred Stock of one or more series and in connection with the creation of any such series to fix by the resolution or resolutions providing for the issue of shares thereof the designation, powers, preferences, and relative, participating, optional, or other special rights of such series, and the qualifications, limitations, or restrictions thereof. Such authority of the Board of Directors with respect to each such series shall include, but not be limited to, the determination of the following:

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(a) the distinctive designation of, and the number of shares comprising, such series, which number may be increased (except where otherwise provided by the Board of Directors in creating such series) or decreased (but not below the number of shares thereof then outstanding) from time to time by like action of the Board of Directors;

(b) the dividend rate or amount for such series, the conditions and dates upon which such dividends shall be payable, the relation which such dividends shall bear to the dividends payable on any other class or classes or any other series of any class or classes of stock, and whether such dividends shall be cumulative, and if so, from which date or dates for such

series;

(c) whether or not the shares of such series shall be subject to redemption by the Company and the times, prices, and other terms and conditions of such redemption;

(d) whether or not the shares of such series shall be subject to the operation of a sinking fund or purchase fund to be applied to the purchase or redemption of such shares and if such a fund be established, the amount thereof and the terms and provisions relative to the application thereof;

(e) whether or not the shares of such series shall be convertible into or exchangeable for shares of any other class or classes, or of any other series of any class or classes, of stock of the Company and if provision be made for conversion or exchange, the times, prices, rates, adjustments, and other terms and conditions of such conversion or exchange;

(f) whether or not the shares of such series shall have voting rights, in addition to the voting rights provided by law, and if they are to have such additional voting rights, the extent thereof;

(g) the rights of the shares of such series in the event of any liquidation, dissolution, or winding up of the Company or upon any distribution of its assets; and

(h) any other powers, preferences, and relative, participating, optional, or other special rights of the shares of such series, and qualifications, limitations, or restrictions thereof, to the full extent now or hereafter permitted by law and not inconsistent with the provisions hereof.

All shares of any one series of Preferred Stock shall be identical in all respects except as to the dates from which dividends thereon shall be cumulative. All series of the Preferred Stock shall rank equally and be identical in all respects except as otherwise provided in the resolution or resolutions providing for the issue of any series of Preferred Stock.

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Whenever dividends upon the Preferred Stock at the time outstanding, to the extent of the preference to which such stock is entitled, shall have been paid in full or declared and set apart for payment for all past dividend periods, and after the provisions for any sinking or purchase fund or funds for any series of Preferred Stock shall have been complied with, the Board of Directors may declare and pay dividends on the Common Stock, payable in cash, stock, or otherwise, and the holders of shares of Preferred Stock shall not be entitled to share therein, subject to the provisions of the resolution or resolutions creating any series of Preferred Stock.

In the event of any liquidation, dissolution, or winding up of the Company or upon the distribution of the assets of the Company, all assets and funds of the Company remaining, after the payment to the holders of the Preferred Stock of the full preferential amounts to which they shall be entitled as provided in the resolution or resolutions creating any series thereof, shall be divided and distributed among the holders of the Common Stock ratably, except as may otherwise be provided in any such resolution or resolutions. Neither the merger or consolidation of the Company with another corporation nor the sale or lease of all or substantially all the assets of the Company shall be deemed to be a liquidation, dissolution, or winding up of the Company or a distribution of its assets.

Except as otherwise required by law or provided by a resolution or resolutions of the Board of Directors creating any series of Preferred Stock, the holders of Common Stock shall have the exclusive power to vote and shall have one vote in respect of each share of such stock held and the holders of Preferred Stock shall have no voting power whatsoever. Except as otherwise provided in such a resolution or resolutions, the authorized shares of any class or classes may be increased or decreased by the affirmative vote of the holders of a majority of the outstanding shares of stock of the Company entitled to vote.

Pursuant to the authority conferred by this Article Fourth upon the Board of Directors of the Company, the Board of Directors created a series of 1,600,000 shares of Preferred Stock designated as Series A Junior Participating Preferred Stock by filing a Certificate of Designations of the Company with the Secretary of State of the State of Delaware (the "Secretary of State") and the voting powers, designations, preferences and relative, participating, optional or other special rights, and the qualifications, limitations or restrictions thereof, of the Company's Series A Junior Participating Preferred Stock are set forth in Exhibit A hereto and are incorporated herein by reference.

Pursuant to the authority conferred by this Article Fourth upon the Board of Directors of the Company, the Board of Directors created a series of 1,400,000 shares of Preferred Stock designated as Series B ESOP Convertible Preferred Stock by filing a Certificate of Designations of the Company with the Secretary of State and the voting powers, designations, preferences and relative, participating, optional or other special rights, and the qualifications, limitations or restrictions thereof, of the Company's Series

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B ESOP Convertible Preferred Stock are set forth in Exhibit B hereto and are incorporated herein by reference.

Fifth: In furtherance and not in limitation of the powers conferred by the laws of the State of Delaware, the Board of Directors is expressly authorized and empowered:

(a) to make, alter, and repeal the Bylaws of the Company, subject to the power of the stockholders of the Company to alter or repeal any Bylaw made by the Board of Directors;

(b) subject to the laws of the State of Delaware, from time to time to sell, lease, or otherwise dispose of any part or parts of the properties of the Company and to cease to conduct the business connected therewith or again to resume the same, as it may deem best; and

(c) in addition to the powers and authorities hereinbefore and by the laws of the State of Delaware conferred upon the Board of Directors, to exercise all such powers and to do all such acts and things as may be exercised or done by the Company; subject, nevertheless, to the provisions of said laws, of the Certificate of Incorporation as from time to time amended of the Company, and of its Bylaws.

Sixth: (a) Except as otherwise provided for or fixed by or pursuant to the provisions of Article Fourth of this Certificate of Incorporation relating to the rights of the holders of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation to elect additional directors under specified circumstances, the number of directors of the Company shall be fixed from time to time by or pursuant to the Bylaws of the Company. The directors, other than those who may be elected pursuant to the aforesaid provisions of said Article Fourth, shall be classified, with respect to the time for which they severally hold office, into three classes, as nearly equal in number as possible, as shall be provided in the manner specified in the Bylaws of the Company, the first such class to be originally elected for a term expiring at the annual meeting of stockholders to be held in 1986, the second such class to be originally elected for a term expiring at the annual meeting of stockholders to be held in 1987, and the third such class to be originally elected for a term expiring at the annual meeting of stockholders to be held in 1988, with each director in each class to hold office until his or her successor is elected and qualified. At each annual meeting of stockholders beginning with the annual meeting of stockholders to be held in 1986, the successors of the class of directors whose term expires at that meeting shall be elected to hold office for a term expiring at the annual meeting of stockholders to be held in the third year following the year of their election, with each director in each such class to hold office until his or her successor is elected and qualified.

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(b) Advance notice of stockholder nominations for the election of directors shall be given in the manner provided by the Bylaws of the Company at the time

in effect.

(c) Except as otherwise provided for or fixed by or pursuant to the provisions of Article Fourth of this Certificate of Incorporation relating to the rights of the holders of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation to elect additional directors under specified circumstances, newly-created directorships resulting from any increase in the number of directors and any vacancies on the Board of Directors resulting from death, resignation, disqualification, removal, or other cause shall be filled only by the affirmative vote of a majority of the remaining directors then in office, even though less than a quorum of the Board of Directors. Any director elected in accordance with the preceding sentence shall hold office for the remainder of the full term of the class of directors in which the new directorship was created or the vacancy occurred and until such director's successor shall have been elected and qualified. No decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director.

(d) Except as otherwise provided for or fixed by or pursuant to the provisions of Article Fourth of this Certificate of Incorporation relating to the rights of the holders of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation to elect additional directors under specified circumstances, any director may be removed from office, with or without cause, but only by the affirmative vote of at least 80% of the combined voting power of the then-outstanding shares of all classes and series of stock of the Company entitled to vote generally in the election of directors ("Voting Stock"), voting together as a single class (it being understood that for the purposes of this Article Sixth, each share of the Voting Stock shall have the number of votes granted to it in accordance with Article Fourth of this Certificate of Incorporation).

(e) Notwithstanding anything contained in this Certificate of Incorporation to the contrary, the affirmative vote of at least 80% of the combined voting power of the Voting Stock, voting together as a single class, shall be required to alter, amend, or repeal, or adopt any provision inconsistent with, this Article Sixth.

Seventh: Section 1. The vote of stockholders of the Company required to approve any Business Combination shall be as set forth in this Article Seventh. The term "Business Combination", as well as other capitalized terms used in this Article Seventh, shall have the respective meanings ascribed to them in Section 3 of this Article Seventh.

Irrespective of any affirmative vote required by law or by this Certificate of Incorporation, and except as otherwise expressly provided in Section 2 of this Article Seventh:

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(i) any merger or consolidation of the Company or any Subsidiary with (a) any Interested Stockholder or (b) any other Person (whether or not itself an Interested Stockholder or an Affiliate of an Interested Stockholder) which is, or after such merger or consolidation would be, an Interested Stockholder or an Affiliate of an Interested Stockholder,

(ii) any sale, lease, exchange, mortgage, pledge, transfer, or other disposition (in one transaction or a series of transactions) to or with any Interested Stockholder or any Affiliate of any Interested Stockholder of any assets of the Company or any Subsidiary having an aggregate Fair Market Value of \$100 million or more,

(iii) any sale, lease, exchange, mortgage, pledge, transfer, or other disposition (in one transaction or a series of transactions) to the Company or any Subsidiary of any assets of any Interested Stockholder or any Affiliate of any Interested Stockholder having an aggregate Fair Market Value of \$100 million or more,

(iv) any issuance or transfer by the Company or any Subsidiary (in one transaction or a series of transactions) of any securities of the Company or any Subsidiary to any Interested Stockholder or any Affiliate of any Interested Stockholder in exchange for cash, securities, or other property

(or a combination thereof) having an aggregate Fair Market Value of \$100 million or more,

(v) the adoption of any plan or proposal for the liquidation or dissolution of the Company proposed by or on behalf of any Interested Stockholder or any Affiliate of any Interested Stockholder, or

(vi) any reclassification of securities (including any reverse stock split), or recapitalization of the Company, or any merger or consolidation of the Company with any of its Subsidiaries or any other transaction (whether or not with or into or otherwise involving an Interested Stockholder), which has the effect, directly or indirectly, of increasing the proportionate share of the outstanding shares of any class of equity, or securities convertible into any equity, securities of the Company or any Subsidiary, as the case may be, which is, directly or indirectly, owned by any Interested Stockholder or any Affiliate of any Interested Stockholder,

shall require the affirmative vote of at least 80% of the combined voting power of the then-outstanding shares of all classes and series of stock of the Company entitled to vote generally in the election of directors ("Voting Stock"), voting together as a single class (it being understood that for the purposes of this Article Seventh, each share of Voting Stock shall have the number of votes granted to it in accordance with Article Fourth of this Certificate of Incorporation). Such affirmative vote shall be required

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notwithstanding the fact that no vote may be required, or that a lesser percentage may otherwise be applicable, by law or in any agreement with any national securities exchange or otherwise.

Section 2. Any Business Combination which meets all the conditions specified in either paragraph A or paragraph B below shall not be subject to the provisions of Section 1 of this Article Seventh and shall require only such affirmative vote as is required by law and any other provision of this Certificate of Incorporation:

A. the Business Combination shall have been approved by a majority of the Disinterested Directors;

- or -

B. all the following conditions with respect to such Business Combination shall have been met:

(i) the aggregate amount of cash and the Fair Market Value as of the date of the consummation of the Business Combination of consideration other than cash to be received per share by holders of Common Stock in such Business Combination, shall be at least equal in value to the higher of the following:

(a) if applicable, the highest per share price (including any brokerage commissions, transfer taxes, soliciting dealers' fees, and option costs) paid by the Interested Stockholder (before or after becoming an Interested Stockholder), or any Affiliate or Associate thereof, in acquiring Beneficial Ownership of any shares of Common Stock (1) within the two-year period immediately prior to the first public announcement of the proposal of the Business Combination ("Announcement Date") or (2) in the transaction in which it became an Interested Stockholder, whichever is higher; or

(b) the Fair Market Value per share of Common Stock of the Company (1) on the Announcement Date, or (2) on the date on which the Interested Stockholder became an Interested Stockholder ("Determination Date"), whichever is higher;

(ii) the aggregate amount of cash and the Fair Market Value as of the date of the consummation of the Business Combination of consideration other than cash to be received per share by holders of shares of any class or series of outstanding Voting Stock other than Common Stock shall be at least equal to the

highest of the following (it being intended that the requirements of this paragraph B(ii) of this Section 2 of Article Seventh shall be required to be met with respect to every class or series, as the case may be, of outstanding Voting Stock, whether or not the Interested Stockholder has previously acquired any shares of such class or series of Voting Stock):

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(a) if applicable, the highest per share price (including any brokerage commissions, transfer taxes, soliciting dealers' fees, and option costs) paid by the Interested Stockholder (before or after becoming an Interested Stockholder) for any shares of such class or series of Voting Stock acquired by it (1) within the two-year period immediately prior to the Announcement Date or (2) in the transaction in which it became an Interested Stockholder, whichever is higher;

(b) if applicable, the highest preferential amount per share to which the holders of shares of such class or series, as the case may be, of Voting Stock are entitled in the event of any voluntary or involuntary liquidation, dissolution, or winding up of the Company; or

(c) the Fair Market Value per share of such class or series, as the case may be, of Voting Stock on the Announcement Date or on the Determination Date, whichever is higher;

(iii) the price determined in accordance with paragraphs B(i) and B(ii) of this Section 2 of Article Seventh shall be subject to appropriate adjustment in the event of any stock dividend, stock split, combination of shares, or similar event;

(iv) the consideration to be received by the holders of a specified class or series of outstanding Voting Stock (including Common Stock) shall be in cash or in the same form as that which the Interested Stockholder has previously paid for shares of such class or series of Voting Stock; if the Interested Stockholder had paid for shares of any class or series of Voting Stock with varying forms of consideration, the form of consideration for such class or series of Voting Stock shall, at the option of the Interested Stockholder, be either cash or the form used to acquire the largest number of shares of such class or series of Voting Stock previously acquired by it;

(v) after such Interested Stockholder has become an Interested Stockholder and prior to the consummation of such Business Combination: (a) except as approved by a majority of the Disinterested Directors, there shall have been no failure to declare and pay at the regular date therefor any full quarterly dividends (whether or not cumulative) on the outstanding Preferred Stock; (b) there shall have been (i) no reduction in the annual rate of dividends payable or last paid, as the case may be, on the Common Stock (except as necessary to reflect any subdivision of such Common Stock) except as approved by a majority of the Disinterested Directors and (ii) an increase in the annual rate of dividends last paid on the Common Stock, as necessary to reflect any reclassification (including any reverse stock split), recapitalization, reorganization, or any similar transaction which has the effect of reducing the number of outstanding shares of such Common Stock, unless the failure so to increase such annual rate shall have been approved by a majority of the Disinterested Directors; and (c) such Interested Stockholder shall not

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have acquired Beneficial Ownership of any additional shares of Voting Stock, except as part of the transaction which resulted in such Interested Stockholder becoming an Interested Stockholder;

(vi) after such Interested Stockholder has become an Interested Stockholder, such Interested Stockholder shall not have received the benefit, directly or indirectly (except proportionately as a stockholder), of any loans, advances, guarantees, pledges, or other financial assistance or any tax credits or other tax advantages provided by, or as a result of its equity position in, the Company, whether in anticipation of or in connection with such Business Combination or otherwise; and

(vii) a proxy statement or information statement describing the proposed Business Combination (and including the views of the Disinterested Directors, if requested by the Disinterested Directors, and of an independent investment banker, if any, selected by such Disinterested Directors with respect to the proposed Business Combination) and complying with the disclosure and other requirements of the Securities Exchange Act of 1934 and the rules and regulations thereunder (or any subsequent provisions replacing such requirements of such Act, rules, or regulations) shall be mailed at least 30 days prior to the consummation of such Business Combination (whether or not such proxy statement or information statement is required to be mailed pursuant to such Act or subsequent provisions) to stockholders of the Company.

Section 3. For purposes of this Article Seventh:

A. An "Affiliate" of, or a Person "Affiliated" with, a specified Person, shall mean a Person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the Person specified.

B. "Announcement Date" shall have the meaning set forth in paragraph B(i)(a) of Section 2 of this Article Seventh.

C. The term "Associate" used to indicate a relationship with any Person shall mean (1) any corporation or organization (other than the Company or any Subsidiary), of which such Person is an officer or partner or is, directly or indirectly, the Beneficial Owner of 10% or more of any class of equity securities, (2) any trust or other estate in which such Person has a substantial beneficial interest or as to which such Person serves as a trustee or in a similar fiduciary capacity, and (3) any relative or spouse of such Person, or any relative of such spouse, who has the same home as such Person or who is a director or officer of the Company or any Subsidiary.

D. A Person shall be a "Beneficial Owner" of any Voting Stock:

(i) which such Person or any of its Affiliates or Associates owns, directly or indirectly;

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(ii) which such Person or any of its Affiliates or Associates has (a) the right to acquire (whether such right is exercisable immediately or only after the passage of time) pursuant to any agreement, arrangement, or understanding or upon the exercise of conversion rights, exchange rights, warrants, or options, or otherwise, or (b) the right to vote (whether or not irrevocable) pursuant to any agreement, arrangement, or understanding; or

(iii) which is Beneficially Owned, directly or indirectly, by another Person with which such Person or any of its Affiliates or Associates has any agreement, arrangement, or understanding for the purpose of acquiring, holding, voting, or disposing of any shares of Voting Stock,

and any Voting Stock of which a Person shall be the Beneficial Owner shall be "Beneficially Owned" by, or be under the "Beneficial Ownership" of, such Person.

E. "Business Combination" shall mean any transaction which is referred to in any one or more of clauses (i) through (vi) of Section 1 of this Article Seventh.

F. In the event of any Business Combination in which the Company survives, the phrase "consideration other than cash to be received" as used in paragraphs B(i) and (ii) of Section 2 of this Article Seventh shall include shares of Common Stock and shares of any other class or series of outstanding Voting Stock retained by the holders of such shares, or both.

G. "Determination Date" shall have the meaning set forth in paragraph B(i)(b) of Section 2 of this Article Seventh.

H. "Disinterested Director" shall mean any member of the Board of Directors who is not an Affiliate, an Associate, or a nominee of the Interested

Stockholder and who was a member of the Board of Directors prior to the time that the Interested Stockholder became an Interested Stockholder, and any successor of a Disinterested Director who is not an Affiliate or Associate of the Interested Stockholder and is recommended to succeed a Disinterested Director by a majority of Disinterested Directors then on the Board of Directors.

I. "Fair Market Value" shall mean: (i) in the case of stock, the highest closing sale price of a share of such stock during the 30 calendar day period immediately preceding the date in question on the Composite Tape for New York Stock Exchange-Listed Stocks, or, if such stock is not quoted on such Composite Tape, on the New York Stock Exchange, or, if such stock is not listed on such Exchange, on the principal United States securities exchange registered under the Securities Exchange Act of 1934 on which such stock is listed, or, if such stock is not listed on any such exchange, the highest closing bid quotation with respect to a share of such stock during

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the 30 calendar day period immediately preceding the date in question on the National Association of Securities Dealers, Inc. Automated Quotations System or any system then in use, or if no such quotations are available, the fair market value on the date in question of a share of such stock as determined by a majority of the Disinterested Directors; and (ii) in the case of property other than cash or stock, the fair market value of such property on the date in question as determined by a majority of the Disinterested Directors.

J. "Interested Stockholder" shall mean any Person (other than the Company, any Subsidiary, or any employee benefit plan of the Company or any Subsidiary) who or which:

(i) is the Beneficial Owner, directly or indirectly, of at least 10% of the Voting Stock;

(ii) is an Affiliate of the Company and at any time within the two-year period immediately prior to the date in question was the Beneficial Owner, directly or indirectly, of at least 10% of the Voting Stock; or

(iii) is an assignee of or has otherwise succeeded to any shares of Voting Stock which were at any time within the two-year period immediately prior to the date in question Beneficially Owned by any Interested Stockholder, if such assignment or succession shall have occurred in the course of a transaction or series of transactions not involving a public offering within the meaning of the Securities Act of 1933, as amended.

For purposes of determining whether a person is an Interested Stockholder, the number of shares of Voting Stock deemed to be outstanding shall include shares deemed owned through application of paragraph D of this Section 3, but shall not include any other shares of Voting Stock which may be issuable pursuant to any agreement, arrangement, or understanding or upon exercise of conversion rights, warrants, or options, or otherwise.

K. "Person" shall mean any individual, firm, trust, partnership, association, corporation, or other entity.

L. "Subsidiary" shall mean any corporation of which a majority of any class of equity security is owned, directly or indirectly, by the Company.

M. "Voting Stock" shall have the meaning set forth in Section 1 of this Article Seventh.

Section 4. A majority of the Disinterested Directors shall have the power and duty to determine for the purposes of this Article Seventh, on the basis of information known to them after reasonable inquiry, (A) whether a person is an

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Interested Stockholder, (B) the number of shares of Voting Stock beneficially owned by any person, (C) whether a Person is an Affiliate or Associate of

another, and (D) whether the assets which are the subject of any Business Combination have, or the consideration to be received for the issuance or transfer of securities by the Company or any Subsidiary in any Business Combination has, an aggregate Fair Market Value of \$100 million or more. A majority of the Disinterested Directors shall have the further power to interpret all the terms and provisions of this Article Seventh.

Section 5. Nothing contained in this Article Seventh shall be construed to relieve any interested Stockholder from any fiduciary obligation imposed by law.

Section 6. Notwithstanding any other provisions of this Certificate of Incorporation or the Bylaws (and notwithstanding the fact that a lesser percentage may otherwise be specified by law, this Certificate of Incorporation, or the Bylaws), the affirmative vote of at least 80% of the Voting Stock, voting together as a single class (it being understood that for the purposes of this Article Seventh, each share of the Voting Stock shall have the number of votes granted to it in accordance with Article Fourth of this Certificate of Incorporation), shall be required to alter, amend, or repeal, or adopt any provisions inconsistent with, this Article Seventh.

Eighth: Any action required or permitted to be taken by the holders of the Voting Stock must be effected at a duly called annual or special meeting of such holders and may not be effected by any consent in writing by such holders. Notwithstanding anything contained in this Certificate of Incorporation to the contrary, the affirmative vote of at least 80% of the combined voting power of the then-outstanding shares of all classes and series of stock of the Company entitled to vote generally in the election of directors ("Voting Stock"), voting together as a single class (it being understood that for the purposes of this Article Eighth, each share of the Voting Stock shall have the number of votes granted to it in accordance with Article Fourth of this Certificate of Incorporation), shall be required to alter, amend, or repeal, or adopt any provisions inconsistent with, this Article Eighth.

Ninth: The Board of Directors shall have the power to make, alter, amend, or repeal, or adopt any provision inconsistent with, the Bylaws (except insofar as the Bylaws adopted by the stockholders shall otherwise provide). Any Bylaws made by the directors under the powers conferred hereby may be altered, amended, or repealed, and any provisions inconsistent therewith may be adopted, by the directors or by the stockholders. Notwithstanding the foregoing and anything contained in this Certificate of Incorporation to the contrary, Section 2 of Article II, and Sections 3, 12, 13, and 15 of Article III of the Bylaws, all as in effect simultaneously with the effectiveness of this Article, shall not be altered, amended, or repealed, and no provision inconsistent therewith shall be adopted, without the affirmative vote of at least 80% of the combined voting power of the then-outstanding shares of all classes and series of stock of the Company entitled to vote generally in the election of directors ("Voting Stock"), voting together as a single class (it being understood that for the purposes of this Article Ninth, each share of the Voting Stock shall have the number of votes granted to it in

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accordance with Article Fourth of this Certificate of Incorporation). Notwithstanding anything contained in this Certificate of Incorporation to the contrary, the affirmative vote of at least 80% of the Voting Stock, voting together as a single class, shall be required to alter, amend, or repeal, or adopt any provision inconsistent with, this Article Ninth.

Tenth: A director of the Company shall not be personally liable to the Company or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the Company or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the Delaware General Corporation Law, or (iv) for any transaction from which the director derived an improper personal benefit. If the Delaware General Corporation Law is hereafter amended to permit further limitation on or elimination of the personal liability of the Company's directors for breach of fiduciary duty, then a director of the Company shall be exempt from such liability for any such breach to the full extent permitted by the Delaware General Corporation Law as so amended from time to time. Any repeal or modification of the foregoing provisions of this Article Tenth, or the

adoption of any provision inconsistent herewith, shall not adversely affect any right or protection of a director of the Company hereunder in respect of any act or omission of such director occurring prior to such repeal, modification, or adoption of an inconsistent provision.

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IN WITNESS WHEREOF, the undersigned has executed this Restated Certificate of Incorporation this 20th day of February, 2002.

J. C. PENNEY COMPANY, INC.

By: /s/ Charles R. Lotter

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

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EXHIBIT A

CERTIFICATE OF DESIGNATIONS
OF
SERIES A JUNIOR PARTICIPATING PREFERRED STOCK
OF
J. C. PENNEY COMPANY, INC.
Pursuant to Section 151 of the Delaware
General Corporation Law

J. C. Penney Company, Inc. (f/k/a J. C. Penney Holdings, Inc.), a company organized and existing under the laws of the State of Delaware (the "Company"), DOES HEREBY CERTIFY that pursuant to authority conferred on the Board of Directors of the Company by its Certificate of Incorporation and the provisions of Section 151(g) of the General Corporation Law of the State of Delaware, the Board of Directors on January 22, 2002 adopted the following resolution:

RESOLVED, that pursuant to the authority vested in the Board of Directors of the Company in accordance with the provisions of its Certificate of Incorporation, a series of Preferred Stock of the Company be, and hereby is, created and that the designation and amount thereof and the voting powers, preferences and relative, participating, optional or other special rights of the shares of such series, and the qualifications, limitations or restrictions thereof are as follows:

Section 1. Designation and Amount. The shares of such series shall be

designated "Series A Junior Participating Preferred Stock" (the "Series A Preferred Stock") and the number of shares constituting such series shall be 1,600,000.

Section 2. Dividends and Distributions.

(A) Subject to the provisions for adjustment hereinafter set forth, the holders of shares of Series A Preferred Stock shall be entitled to receive, when, as and if declared by the Board of Directors out of funds legally available for the purpose, (i) cash dividends in an amount per share (rounded to the nearest cent) equal to 1,000 times the aggregate per share amount of all cash dividends declared or paid on the Common Stock, 50(cent) par value per share, of the Company (the "Common Stock") and (ii) a preferential cash dividend ("Preferential Dividend"), if any, on the first day of February, May, August and November of each year (each a "Quarterly Dividend Payment Date"), commencing on

the first Quarterly Dividend Payment Date after the first issuance of a share or fraction of a share of Series A Preferred Stock, in an amount equal to \$50.00 per share of Series A Preferred Stock less the per share amount of all cash dividends declared on the Series A Preferred Stock pursuant to clause (i) of this sentence since the immediately preceding Quarterly Dividend Payment Date or, with respect to the first Quarterly Dividend Payment Date, since the first issuance of any share or fraction of a share of Series A Preferred Stock. In the event the Company shall, at any time after the issuance of any share or fraction of a share of Series A

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Preferred Stock, make any distribution on the shares of Common Stock of the Company, whether by way of a dividend or a reclassification of stock, a recapitalization, reorganization or partial liquidation of the Company or otherwise, which is payable in cash or any debt security, debt instrument, real or personal property or any other property (other than cash dividends subject to the immediately preceding sentence and other than a distribution of shares of Common Stock or other capital stock of the Company and other than a distribution of rights or warrants to acquire any such share, including any debt security convertible into or exchangeable for any such share), at a price less than the Current Market Price of such share, then, and in each such event the Company shall simultaneously pay on each then outstanding share of Series A Preferred Stock of the Company a distribution, in like kind, of 1,000 times such distribution paid on a share of Common Stock (subject to the provisions for adjustment hereinafter set forth). The dividends and distributions on the Series A Preferred Stock to which holders thereof are entitled pursuant to clause (i) of the first sentence of this paragraph and the second sentence of this paragraph are hereinafter referred to as "Participating Dividends," and the multiple of such cash and noncash dividends on the Common Stock applicable to the determination of the Participating Dividends, which shall be 1,000 initially but shall be adjusted from time to time as hereinafter provided, is hereinafter referred to as the "Dividend Multiple". In the event the Company shall at any time after March 26, 1999 (the "Effective Date") declare or pay any dividend or make any distribution on Common Stock payable in shares of Common Stock, or effect a subdivision or split or a combination, consolidation or reverse split of the outstanding shares of Common Stock into a greater or lesser number of shares of Common Stock, or issue any of its capital stock in a reclassification of the Common Stock (including any such reclassification in connection with a consolidation or merger in which the Company is the continuing or surviving corporation), then in each such case the Dividend Multiple thereafter applicable to the determination of the amount of Participating Dividends which holders of shares of Series A Preferred Stock shall be entitled to receive shall be the Dividend Multiple applicable immediately prior to such event multiplied by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(B) Except as otherwise provided for or fixed by or pursuant to the provisions of Article Fourth of the Certificate of Incorporation of the Company relating to the rights of holders of any class or series of stock having a preference over the Common Stock as to dividends, the Company shall declare each Participating Dividend at the same time it declares any cash or noncash dividend or distribution on the Common Stock in respect of which a Participating Dividend is required to be paid. No cash or noncash dividend or distribution on the Common Stock in respect of which a Participating Dividend is required shall be paid or set aside for payment on the Common Stock unless a Participating Dividend in respect of such dividend or distribution on the Common Stock shall be simultaneously paid or set aside for payment on the Series A Preferred Stock.

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(C) Preferential Dividends shall begin to accumulate on outstanding shares of Series A Preferred Stock from the Quarterly Dividend Payment Date next preceding the date of issuance of any shares of Series A Preferred Stock. Accumulated but unpaid Preferential Dividends shall cumulate but shall not bear interest. Preferential Dividends paid on the shares of Series A Preferred Stock in an amount less than the total amount of such dividends at the time

accumulated and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding.

Section 3. Voting Rights. The holders of shares of Series A Preferred Stock shall have the following voting rights:

(A) Subject to the provisions for adjustment hereinafter set forth, each share of Series A Preferred Stock shall entitle the holder thereof to 1,000 votes on all matters submitted to a vote of the stockholders of the Company. The number of votes which a holder of Series A Preferred Stock is entitled to cast, as the same may be adjusted from time to time as hereinafter provided, is hereinafter referred to as the "Vote Multiple." In the event the Company shall at any time after the Effective Date declare or pay any dividend on Common Stock payable in shares of Common Stock, or effect a subdivision or split or a combination, consolidation or reverse split of the outstanding shares of Common Stock into a greater or lesser number of shares of Common Stock, or issue any of its capital stock in a reclassification of the Common Stock (including any such reclassification in connection with a consolidation or merger in which the Company is the continuing or surviving corporation), then in each such case the Vote Multiple thereafter applicable to the determination of the number of votes per share to which holders of shares of Series A Preferred Stock shall be entitled after such event shall be the Vote Multiple immediately prior to such event multiplied by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(B) Except as otherwise provided herein, in the Certificate of Incorporation, in any resolution or resolutions of the Board of Directors of the Company providing for the issue of any other series of Preferred Stock or by law, the holders of shares of Series A Preferred Stock, the holders of shares of Common Stock and the holders of shares of any other class or series of capital stock of the Company entitled to vote generally for the election of directors shall vote together as one class on all matters submitted to a vote of stockholders of the Company.

(C) In the event that the Preferential Dividends accrued on the Series A Preferred Stock for four or more consecutive quarterly periods shall not have been declared and paid or set apart for payment, the holders of record of the Series A Preferred Stock, voting together with the holders of record of any other series of Preferred Stock of the Company which shall then have the right, expressly granted by the Certificate of Incorporation of the Company or in any resolution or resolutions of the Board of Directors of the Company providing for the issue of such shares of Preferred

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Stock, to elect directors upon such a default in the payment of dividends by the Company shall have the right, at the next meeting of stockholders called for the election of directors, voting together as a class, to elect two members to the Board of Directors, which directors shall be in addition to the number provided for pursuant to the Company's Bylaws prior to such event, to serve until the next Annual Meeting and until their successors are elected and qualified or their earlier resignation, removal or incapacity or until such earlier time as all accrued and unpaid Preferential Dividends upon the outstanding shares of Series A Preferred Stock shall have been paid (or set aside for payment) in full. The holders of shares of Series A Preferred Stock shall continue to have the right to elect directors as provided by the immediately preceding sentence until all accrued and unpaid Preferential Dividends upon the outstanding shares of Series A Preferred Stock shall have been paid (or set aside for payment) in full. Such directors may be removed and replaced by such stockholders, and vacancies in such directorships may be filled only by such stockholders (or by the remaining director elected by such stockholders, if there be one) in the manner permitted by law. Subject to the foregoing, any directors elected pursuant to this paragraph 3(C) shall be elected annually and shall not constitute members of any Class of directors as contemplated by Article Sixth of the Company's Certificate of Incorporation.

(D) Except as otherwise required by law or set forth herein, holders of Series A Preferred Stock shall have no special voting rights and their consent shall not be required (except to the extent they are entitled to vote as set

forth herein) for the taking of any corporate action.

Section 4. Certain Restrictions.

(A) Whenever Preferential Dividends or Participating Dividends are in arrears or the Company shall be in default in payment thereof, thereafter and until all accrued and unpaid Preferential Dividends and Participating Dividends, whether or not declared, on shares of Series A Preferred Stock outstanding shall have been paid or set aside for payment in full, and in addition to any and all other rights which any holder of shares of Series A Preferred Stock may have in such circumstances, the Company shall not

(i) declare or pay dividends on, make any other distributions on, or redeem or purchase or otherwise acquire for consideration, any shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Preferred Stock;

(ii) declare or pay dividends or make any other distributions on any shares of stock ranking on a parity as to dividends with the Series A Preferred Stock, unless dividends are paid ratably on the Series A Preferred Stock and all such parity stock on which dividends are payable or in arrears in proportion to the total amounts to which the holders of all such shares are then entitled;

(iii) except as permitted by subparagraph (iv) of this paragraph (A), redeem or purchase or otherwise acquire for consideration shares of any stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Preferred Stock, provided that the Company may at

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any time redeem, purchase or otherwise acquire shares of any such parity stock in exchange for shares of any stock of the Company ranking junior (both as to dividends and upon liquidation, dissolution or winding up) to the Series A Preferred Stock; or (iv) purchase or otherwise acquire for consideration any shares of Series A Preferred Stock, or any shares of stock ranking on a parity with the Series A Preferred Stock (either as to dividends or upon liquidation, dissolution or winding up), except in accordance with a purchase offer made in writing or by publication (as determined by the Board of Directors) to all holders of such shares upon such terms as the Board of Directors, after consideration of the respective annual dividend rates and other relative rights and preferences of the respective series and classes, shall determine in good faith will result in fair and equitable treatment among the respective series or classes.

(B) The Company shall not permit any subsidiary of the Company to purchase or otherwise acquire for consideration any shares of stock of the Company ranking junior to the Series A Preferred Stock unless the Company could, under paragraph (A) of this Section 4, purchase or otherwise acquire such shares at such time and in such manner.

(C) The Company shall not issue any shares of Series A Preferred Stock except upon exercise of Rights issued pursuant to that certain Rights Agreement between the Company and the Rights Agent, a copy of which is on file with the Secretary of the Company at the principal executive office of the Company and shall be made available to holders of record of Common Stock or Series A Preferred Stock without charge upon written request therefor addressed to the Secretary of the Company. Notwithstanding the foregoing sentence, nothing contained in the provisions hereof shall prohibit or restrict the Company from issuing for any purpose any series of Preferred Stock with rights and privileges similar to, different from, or greater than, those of the Series A Preferred Stock.

Section 5. Recquired Shares. Any shares of Series A Preferred Stock

purchased or otherwise acquired by the Company in any manner whatsoever shall be retired and cancelled promptly after the acquisition thereof. All such shares upon their retirement and cancellation shall become authorized but unissued shares of Preferred Stock, without designation as to series, and such shares may be reissued as part of a new series of Preferred Stock to be created by resolution or resolutions of the Board of Directors.

Section 6. Liquidation, Dissolution or Winding Up. Upon any voluntary or

involuntary liquidation, dissolution or winding up of the Company, no distribution shall be made (i) to the holders of shares of stock ranking junior to the Series A Preferred Stock (either as to dividends or upon liquidation, dissolution or winding up) unless the holders of shares of Series A Preferred Stock shall have received, subject to adjustment as hereinafter provided, the greater of (A) \$1,000 (\$1.00 per one one-thousandth of a share) plus an amount equal to all accumulated and unpaid dividends and distributions

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thereon, whether or not declared, to the date of such payment, and (B) the amount equal to 1,000 times the aggregate amount to be distributed per share to holders of Common Stock, as the same may be adjusted as hereinafter provided, or (ii) to the holders of stock ranking on a parity upon liquidation, dissolution or winding up with the Series A Preferred Stock, unless simultaneously therewith distributions are made ratably on the Series A Preferred Stock and all other shares of such parity stock in proportion to the total amounts to which the holders of shares of Series A Preferred Stock are entitled under clause (i)(A) of this sentence and to which the holders of such parity shares are entitled, in each case upon such liquidation, dissolution or winding up. The amount to which holders of Series A Preferred Stock shall be entitled upon liquidation, dissolution or winding up of the Company pursuant to clause (i)(B) of the foregoing sentence is hereinafter referred to as the "Participating Liquidation Amount," and the multiple of the amount to be distributed to holders of shares of Common Stock upon the liquidation, dissolution or winding up of the Company applicable pursuant to said clause to the determination of the Participating Liquidation Amount, which shall be 1,000 but may be adjusted from time to time as hereinafter provided, is hereinafter referred to as the "Liquidation Multiple." In this event the Company shall at any time after the Effective Date declare or pay any dividend on Common Stock payable in shares of Common Stock, or effect a subdivision or split or a combination, consolidation or reverse split of the outstanding shares of Common Stock into a greater or lesser number of shares of Common Stock, or issue any of its capital stock in a reclassification of the Common Stock (including any such reclassification in connection with a consolidation or merger in which the Company is the continuing or surviving corporation), then in each such case the Liquidation Multiple thereafter applicable to the determination of the Participating Liquidation Amount to which holders of Series A Preferred Stock shall be entitled after such event shall be the Liquidation Multiple applicable immediately prior to such event multiplied by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

Section 7. Certain Reclassifications and Other Events.

(A) In the event that holders of shares of Common Stock receive after the Effective Date, in respect of their shares of Common Stock any share of capital stock of the Company (other than any share of Common Stock of the Company), whether by way of reclassification, recapitalization, reorganization, dividend or other distribution or otherwise ("Transaction"), then in each such event the dividend rights, voting rights and rights upon the liquidation, dissolution or winding up of the Company of the shares of Series A Preferred Stock shall be adjusted so that after such event the holders of Series A Preferred Stock shall be entitled, in respect of each share of Series A Preferred Stock held, in addition to such rights in respect thereof to which such holder was entitled immediately prior to such adjustment, to (i) such additional dividends as equal the Dividend Multiple in effect immediately prior to such Transaction multiplied by the additional dividends which the holder of a share of Common Stock shall be entitled to receive by virtue of the receipt in the Transaction of such capital stock, (ii) such

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additional voting rights as equal the Vote Multiple in effect immediately prior to such Transaction multiplied by the additional voting rights which the holder of a share of Common Stock shall be entitled to receive by virtue of the receipt in the Transaction of such capital stock and (iii) such additional distributions upon liquidation, dissolution or winding up of the Company as equal the Liquidation Multiple in effect immediately prior to such Transaction multiplied by the additional amount which the holder of a share of Common Stock shall be entitled to receive upon liquidation, dissolution or winding up of the Company by virtue of the receipt in the Transaction of such capital stock, as the case may be, all as provided by the terms of such capital stock.

(B) In the event that holders of shares of Common Stock receive after the Effective Date, in respect of their shares of Common Stock any right or warrant to purchase Common Stock (including as such a right, for all purposes of this paragraph, any security convertible into or exchangeable for Common Stock) at a purchase price per share less than the Current Market Price (as hereinafter defined) of a share of Common Stock on the date of issuance of such right or warrant, then in each such event the dividend rights, voting rights and rights upon the liquidation, dissolution or winding up of the Company of the shares of Series A Preferred Stock shall each be adjusted so that after such event the Dividend Multiple, the Vote Multiple and the Liquidation Multiple shall each be the product of the Dividend Multiple, the Vote Multiple and the Liquidation Multiple, as the case may be, in effect immediately prior to such event multiplied by a fraction the numerator of which shall be the number of shares of Common Stock outstanding immediately before such issuance of rights or warrants plus the maximum number of shares of Common Stock which could be acquired upon exercise in full of all such rights or warrants and the denominator of which shall be the number of shares of Common Stock outstanding immediately before such issuance of rights or warrants plus the number of shares of Common Stock which could be purchased, at the Current Market Price of the Common Stock at the time of such issuance, by the maximum aggregate consideration payable upon exercise in full of all such rights or warrants.

(C) In the event that holders of shares of Common Stock receive after the Effective Date in respect of their shares of Common Stock any right or warrant to purchase capital stock of the Company (other than shares of Common Stock), including as such a right, for all purposes of this paragraph, any security convertible into or exchangeable for capital stock of the Company, (other than Common Stock), at a purchase price per share less than the Fair Market Value of such shares of capital stock on the date of issuance of such right or warrant, then in each such event the dividend rights, voting rights and rights upon liquidation, dissolution or winding up of the Company of the shares of Series A Preferred Stock shall each be adjusted so that after such event each holder of a share of Series A Preferred Stock shall be entitled, in respect of each share of Series A Preferred Stock held, in addition to such rights in respect thereof to which such holder was entitled immediately prior to such event, to receive (i) such additional dividends as equal the Dividend Multiple in effect immediately prior to such event multiplied, first, by the additional dividends to which the holder of a share of Common Stock shall be entitled upon exercise of such right or warrant by virtue of the capital stock which could be acquired upon such exercise and multiplied again by the Discount Fraction (as hereinafter defined), (ii) such additional voting rights as equal the Vote Multiple in effect immediately prior to such event multiplied, first, by the additional voting rights to which the holder of a share of Common Stock shall be entitled upon exercise of such right or warrant by

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virtue of the capital stock which could be acquired upon such exercise and multiplied again by the Discount Fraction and (iii) such additional distribution upon liquidation, dissolution or winding up of the Company as equal the Liquidation Multiple in effect immediately prior to such event multiplied, first, by the additional amount which the holder of a share of Common Stock shall be entitled to receive upon liquidation, dissolution or winding up of the Company upon exercise of such right or warrant by virtue of the capital stock which could be acquired upon such exercise and multiplied again by the Discount Fraction. For purposes of this paragraph, the "Discount Fraction" shall be a fraction the numerator of which shall be the difference between the Current Market Price of a share of the capital stock subject to a right or warrant distributed to holders of shares of Common Stock as contemplated by this paragraph immediately after the distribution thereof and the purchase price per

share for such share of capital stock pursuant to such right or warrant and the denominator of which shall be the Current Market Price of a share of such capital stock immediately after the distribution of such right or warrant.

(D) For purposes of this Certificate of Designations, the "Current Market Price" of a share of capital stock of the Company (including a share of Common Stock) on any date shall be deemed to be the average of the daily closing price per share thereof over the 30 consecutive Trading Days (as such term is hereinafter defined) immediately prior to such date; provided, however, that, in the event that such Current Market Price of any such share of capital stock is determined during a period which includes any date that is within 30 Trading Days after (i) the ex-dividend date for a dividend or distribution on stock payable in shares of such stock or securities convertible into shares of such stock, or (ii) the effective date of any subdivision, split, combination, consolidation, reverse stock split or reclassification of such stock, then and in each such event, the Current Market Price shall be appropriately adjusted by the Board of Directors to reflect the Current Market Price of such stock to take into account ex-dividend or post-effective date trading. The closing price for any day shall be the last sale price, regular way, or, in case, no such sale takes place on such day, the average of the closing bid and asked prices, regular way (in either case, as reported in the principal consolidated transaction reporting system with respect to securities listed or admitted to trading on the New York Stock Exchange), or, if the shares are not listed or admitted to trading on the New York Stock Exchange, as reported in the principal consolidated transaction reporting system with respect to securities listed on the principal national securities exchange on which the shares are listed or admitted to trading or, if the shares are not listed or admitted to trading on any national securities exchange, the last quoted price or, if not so quoted, the average of the high bid and low asked prices in the over-the-counter market, as reported by the National Association of Securities Dealers, Inc. Automated Quotation System ("NASDAQ") or such other system then in use, or if on any such date the shares are not quoted by any such organization, the average of the closing bid and asked prices as furnished by a

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professional market maker making a market in the shares selected by the Board of Directors. The term "Trading Day" shall mean a day on which the principal national securities exchange on which the shares are listed or admitted to trading is open for the transaction of business or, if the shares are not listed or admitted to trading on any national securities exchange, on which the New York Stock Exchange or such other national securities exchange as may be selected by the Board of Directors is open. If the shares are not publicly held or not so listed or traded on any day within the period of 30 Trading Days applicable to the determination of Current Market Price thereof as aforesaid, "Current Market Price" shall mean the fair market value thereof per share as determined in good faith by the Board of Directors. In either case referred to in the foregoing sentence, the determination of Current Market Price shall be described in a statement filed with the Secretary of the Company.

Section 8. Consolidation, Merger, etc. In the event that the Company shall

enter into any consolidation, merger, combination or other transaction in which shares of Common Stock are exchanged for or changed into other stock or securities, cash and/or any other property, then in any such event each outstanding share of Series A Preferred Stock shall at the same time be similarly exchanged for or changed into the aggregate amount of stock, securities, cash and other property (payable in like kind), as the case may be, for which or into which each share of Common Stock is changed or exchanged multiplied by the highest of the Dividend Multiple, the Vote Multiple or the Liquidation Multiple in effect immediately prior to such event.

Section 9. Effective Time of Adjustments.

(A) Adjustments to the Series A Preferred Stock required by the provisions hereof shall be effective as of the time at which the event requiring such adjustments occurs.

(B) The Company shall give prompt written notice to each holder of a share of Series A Preferred Stock of the effect on any shares of any adjustment to the dividend rights, voting rights or rights upon liquidation, dissolution or

winding up of the Company required by the provisions hereof. Notwithstanding the foregoing sentence, the failure of the Company to give such notice shall not affect the validity of or the force or effect of or the requirement for such adjustment.

Section 10. No Redemption. The shares of Series A Preferred Stock shall not

be redeemable at the option of the Company or any holder thereof. Notwithstanding the foregoing sentence of this Section, the Company may acquire shares of Series A Preferred Stock in any other manner permitted by law, the provisions of the Certificate of Designations setting forth the rights, powers and preferences of the Series A Preferred Stock and the Certificate of Incorporation of the Company.

Section 11. Ranking. Unless otherwise provided in the Certificate of

Incorporation or a certificate of designations relating to a subsequent series of Preferred Stock of the Company, the Series A Preferred Stock shall rank junior to all other series

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of the Company's Preferred Stock as to the payment of dividends and the distribution of assets on liquidation, dissolution or winding up, and senior to the Common Stock.

Section 12. Amendment. After the Distribution Date (as defined in the

Rights Agreement), the provisions of the Certificate of Designations setting forth the rights, powers and preferences of the Series A Preferred Stock and the Certificate of Incorporation shall not be amended in any manner which would materially affect the rights, privileges or powers of the Series A Preferred Stock without, in addition to any other vote of stockholders required by law, the affirmative vote of the holders of 66 2/3% of more of the outstanding shares of Series A Preferred Stock, voting together as a single class.

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EXHIBIT B

CERTIFICATE OF DESIGNATIONS OF SERIES B ESOP CONVERTIBLE PREFERRED STOCK OF J. C. PENNEY COMPANY, INC.

Pursuant to Section 151 of the
Delaware General Corporation Law

J. C. Penney Company, Inc. (f/k/a J. C. Penney Holdings, Inc.), a corporation organized and existing under the Laws of the State of Delaware (the "Company"), DOES HEREBY CERTIFY that, pursuant to the authority conferred upon the Board of Directors by its Certificate of Incorporation and the provisions of Section 151(g) of the General Corporation Law of the State of Delaware, the Board of Directors adopted the following resolution:

RESOLVED that, pursuant to the authority vested in the Board of Directors of the Company in accordance with the provisions of its Certificate of Incorporation, a series of Preferred Stock of the Company be, and it hereby is, created, and that the designation and amount thereof and the voting powers, preferences and relative, participating, optional or other special rights of the shares of such series, and the qualifications, limitations or restrictions thereof are as follows:

Section 1. Designation and Amount; Special Purpose Restricted Transfer

Issue.

(A) The shares of this series of Preferred Stock shall be designated as Series B ESOP Convertible Preferred Stock ("Series B Preferred Stock") and the number of shares constituting such series shall be 1,400,000.

(B) Shares of Series B Preferred Stock shall be issued only to a trustee acting on behalf of an employee stock ownership plan or other employee benefit plan of the Company. In the event of any transfer of shares of Series B Preferred Stock to any person other than any such plan trustee, the shares of Series B Preferred Stock so transferred, upon such transfer and without any further action by the Company or the holder, shall be automatically converted into shares of Common Stock on the terms otherwise provided for the conversion of shares of Series B Preferred Stock into shares of Common Stock pursuant to Section 5 hereof and no such transferee shall have any of the voting powers, preferences and relative, participating, optional or special rights ascribed to shares of Series B Preferred Stock hereunder but, rather, only the powers and rights pertaining to the Common Stock into which such shares of Series B Preferred Stock shall be so converted. Certificates representing shares of Series B Preferred Stock shall be legended to reflect such restrictions on transfer. Notwithstanding the foregoing provisions of this paragraph (B) of Section 1, shares of Series B Preferred

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Stock (i) may be converted into shares of Common Stock as provided by Section 5 hereof and the shares of Common Stock issued upon such conversion may be transferred by the holder thereof as permitted by law and (ii) shall be redeemable by the Company upon the terms and conditions provided by Sections 6, 7 and 8 hereof.

Section 2. Dividends and Distributions.

(A) Subject to the provisions for adjustment hereinafter set forth, the holders of shares of Series B Preferred Stock shall be entitled to receive, when, as and if declared by the Board of Directors out of funds legally available therefor, cash dividends ("Preferred Dividends") in an amount per share equal to \$47.40 per share per annum, and no more, payable semi-annually, one-half on the first day of January and one-half on the first day of July of each year (each a "Dividend Payment Date") commencing on January 1, 1989, to holders of record at the start of business on such Dividend Payment Date. Preferred Dividends shall begin to accrue on outstanding shares of Series B Preferred Stock from the date of issuance of such shares of Series B Preferred Stock. Preferred Dividends shall accrue on a daily basis whether or not the Company shall have earnings or surplus at the time, but Preferred Dividends accrued after January 1, 1989 on the shares of Series B Preferred Stock for any period less than a full semi-annual period between Dividend Payment Dates shall be computed on the basis of a 360-day year of 30-day months. A fully semi-annual dividend payment of \$23.70 per share shall accrue for the period from the date of issuance until June 30, 2002. Accumulated but unpaid Preferred Dividends shall cumulate as of the Dividend Payment Date on which they first become payable, but no interest shall accrue on accumulated but unpaid Preferred Dividends.

(B) So long as any Series B Preferred Stock shall be outstanding, no dividend shall be declared or paid or set apart for payment on any other series of stock ranking on a parity with the Series B Preferred Stock as to dividends, unless there shall also be or have been declared and paid or set apart for payment on the Series B Preferred Stock, like dividends for all dividend payment periods of the Series B Preferred Stock ending on or before the dividend payment date of such parity stock, ratably in proportion to the respective amounts of dividends accumulated and unpaid through such dividend payment period on the Series B Preferred Stock and accumulated and unpaid or payable on such parity stock through the dividend payment period on such parity stock next preceding such dividend payment date. In the event that full cumulative dividends on the Series B Preferred Stock have not been declared and paid or set apart for payment when due, the Company shall not declare or pay or set apart for payment any dividends or make any other distributions on, or make any payment on account of the purchase, redemption or other retirement of any other class of stock or series thereof of the Company ranking, as to dividends or as to distributions in the event of a liquidation, dissolution or

winding-up of the Company, junior to the Series B Preferred Stock until full cumulative dividends on the Series B Preferred Stock shall have been paid or declared and provided for; provided, however, that the foregoing shall not apply to (i) any dividend payable solely in any shares of any stock ranking, as to dividends or as to distributions in the event of a liquidation, dissolution or winding-up of the Company, junior to the Series B Preferred Stock, or (ii) the acquisition of shares of any stock ranking, as to dividends or as to distributions in the event of a liquidation, dissolution or winding up of the Company, junior to the Series B Preferred Stock either (A) pursuant to any employee or director incentive or benefit plan or arrangement (including any employment, severance or consulting agreement) of the Company or any subsidiary of the Company heretofore or hereafter adopted or (B) in exchange solely for shares of any other stock ranking junior to the Series B Preferred Stock.

Section 3. Voting Rights. The holders of shares of Series B Preferred Stock

shall have the following voting rights:

(A) The holders of Series B Preferred Stock shall be entitled to vote on all matters submitted to a vote of the holders of Common Stock of the Company, voting together with the holders of Common Stock as one class. Each share of the Series B Preferred Stock shall be entitled to the number of votes equal to the number of shares of Common Stock into which such share of Series B Preferred Stock could be converted on the record date for determining the stockholders entitled to vote, rounded to the nearest one-tenth of a vote; it being understood that whenever the "Conversion Price" (as defined in Section 5 hereof) is adjusted as provided in Section 9 hereof, the voting rights of the Series B Preferred Stock shall also be similarly adjusted.

(B) Except as otherwise required by law or set forth herein, holders of Series B Preferred Stock shall have no special voting rights and their consent shall not be required (except to the extent they are entitled to vote with holders of Common Stock as set forth herein) for the taking of any corporate action; provided, however, that the vote of at least 66-2/3% of the outstanding shares of Series B Preferred Stock, voting separately as a series, shall be necessary to adopt any alteration, amendment or repeal of any provision of the Restated Certificate of Incorporation of the Company, as amended, or this Resolution (including any such alteration, amendment or repeal effected by any merger or consolidation in which the Company is the surviving or resulting corporation) if such amendment, alteration or repeal would alter or change the powers, preferences or special rights of the shares of Series B Preferred Stock so as to affect them adversely.

Section 4. Liquidation, Dissolution or Winding Up.

(A) Upon any voluntary or involuntary liquidation, dissolution or winding up of the Company, the holders of Series B Preferred Stock shall be entitled to receive out of assets of the Company which remain after satisfaction in full of all valid claims of creditors of the Company and which are available for payment to stockholders and subject to the rights of the holders of any stock of the Company ranking senior to or on a parity with the Series B Preferred Stock in respect of distributions upon liquidation, dissolution or winding up of the Company, before any amount shall be paid or distributed among the holders of Common Stock or any other shares ranking junior to the Series B Preferred Stock in respect of distributions upon liquidation, dissolution or

winding up of the Company, liquidating distributions in the amount of \$600.00 per share, plus an amount equal to all accumulated and unpaid dividends thereon to the date fixed for distribution, and no more. If upon any liquidation, dissolution or winding up of the Company, the amounts payable with respect to the Series B Preferred Stock and any other stock ranking as to any such distribution on a parity with the Series B Preferred Stock are not paid in full, the holders of the Series B Preferred Stock and such other stock shall share ratably in any distribution of assets in proportion to the full respective

preferential amounts to which they are entitled. After payment of the full amount to which they are entitled as provided by the foregoing provisions of this paragraph 4(A), the holders of shares of Series B Preferred Stock shall not be entitled to any further right or claim to any of the remaining assets of the Company.

(B) Neither the merger or consolidation of the Company with or into any other corporation, nor the merger or consolidation of any other corporation with or into the Company, nor the sale, transfer or lease of all or any portion of the assets of the Company, shall be deemed to be a dissolution, liquidation or winding up of the affairs of the Company for purposes of this Section 4, but the holders of Series B Preferred Stock shall nevertheless be entitled in the event of any such merger or consolidation to the rights provided by Section 8 hereof.

(C) Written notice of any voluntary or involuntary liquidation, dissolution or winding up of the Company, stating the payment date or dates when, and the place or places where, the amounts distributable to holders of Series B Preferred Stock in such circumstances shall be payable, shall be given by first-class mail, postage prepaid, mailed not less than twenty (20) days prior to any payment date stated therein, to the holders of Series B Preferred Stock, at the address shown on the books of the Company or any transfer agent for the Series B Preferred Stock.

Section 5. Conversion into Common Stock.

(A) A holder of shares of Series B Preferred Stock shall be entitled, at any time prior to the close of business on the date fixed for redemption of such shares pursuant to Section 6, 7 or 8 hereof, to cause any or all of such shares to be converted into shares of Common Stock, initially at a conversion rate equal to the ratio of \$600.00 to the amount which initially shall be \$60.00 and which shall be adjusted as hereinafter provided (and, as so adjusted, is hereinafter sometimes referred to as the "Conversion Price") (that is, a conversion rate initially equivalent to ten shares of Common Stock for each share of Series B Preferred Stock so converted but that is subject to adjustment as the Conversion Price is adjusted as hereinafter provided).

(B) Any holder of shares of Series B Preferred Stock desiring to convert such shares into shares of Common Stock shall surrender the certificate or certificates representing the shares of Series B Preferred Stock being converted, duly assigned or endorsed for transfer to the Company (or accompanied by duly executed stock powers relating thereto), at the principal executive office of the Company or the offices of the transfer agent for the Series B Preferred Stock or such office or offices in the continental

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United States of an agent for conversion as may from time to time be designated by notice to the holders of the Series B Preferred Stock by the Company or the transfer agent for the Series B Preferred Stock, accompanied by written notice of conversion. Such notice of conversion shall specify (i) the number of shares of Series B Preferred Stock to be converted and the name or names in which such holder wishes the certificate or certificates for Common Stock and for any shares of Series B Preferred Stock not to be so converted to be issued, and (ii) the address to which such holder wishes delivery to be made of such new certificates to be issued upon such conversion.

(C) Upon surrender of a certificate representing a share or shares of Series B Preferred Stock for conversion, the Company shall issue and send by hand delivery (with receipt to be acknowledged) or by first-class mail, postage prepaid, to the holder thereof or to such holder's designee, at the address designated by such holder, a certificate or certificates for the number of shares of Common Stock to which such holder shall be entitled upon conversion. In the event that there shall have been surrendered a certificate or certificates representing shares of Series B Preferred Stock, only part of which are to be converted, the Company shall issue and deliver to such holder or such holder's designee a new certificate or certificates representing the number of shares of Series B Preferred Stock which shall not have been converted.

(D) The issuance by the Company of shares of Common Stock upon a conversion of shares of Series B Preferred Stock into shares of Common Stock made at the

option of the holder thereof shall be effective as of the earlier of (i) the delivery to such holder or such holder's designee of the certificates representing the shares of Common Stock issued upon conversion thereof or (ii) the commencement of business on the second business day after the surrender of the certificate or certificates for the shares of Series B Preferred Stock to be converted, duly assigned or endorsed for transfer to the Company (or accompanied by duly executed stock powers relating thereto) as provided by this Resolution. On and after the effective day of conversion, the person or persons entitled to receive the Common Stock issuable upon such conversion shall be treated for all purposes as the record holder or holders of such shares of Common Stock, but no allowance or adjustment shall be made in respect of dividends payable to holders of Common Stock in respect of any period prior to such effective date. The Company shall not be obligated to pay any dividends which shall have been declared and shall be payable to holders of shares of Series B Preferred Stock on a Dividend Payment Date if such Dividend Payment Date for such dividend shall coincide with or be on or subsequent to the effective date of conversion of such shares.

(E) The Company shall not be obligated to deliver to holders of Series B Preferred Stock any fractional share or shares of Common Stock issuable upon any conversion of such shares of Series B Preferred Stock, but in lieu thereof may make a cash payment in respect thereof in any manner permitted by law.

(F) Whenever the Company shall issue shares of Common Stock upon conversion of shares of Series B Preferred Stock as contemplated by this Section 5, the

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Company shall issue together with each such share of Common Stock one right to purchase Series A Preferred Stock of the Company (or other securities in lieu thereof) pursuant to the Rights Agreement between the Company and the Rights Agent, as such agreement may from time to time be amended, or any rights issued to holders of Common Stock of the Company in addition thereto or in replacement therefor, whether or not such rights shall be exercisable at such time, but only if such rights are issued and outstanding and held by other holders of Common Stock of the Company at such time and have not expired.

(G) The Company shall at all times reserve and keep available out of its authorized and unissued Common Stock, solely for issuance upon the conversion of shares of Series B Preferred Stock as herein provided, free from any preemptive rights, such number of shares of Common Stock as shall from time to time be issuable upon the conversion of all the shares of Series B Preferred Stock then outstanding. The Company shall prepare and shall use its best efforts to obtain and keep in force such governmental or regulatory permits or other authorizations as may be required by law, and shall comply with all requirements as to registration or qualification of the Common Stock, in order to enable the Company lawfully to issue and deliver to each holder of record of Series B Preferred Stock such number of shares of its Common Stock as shall from time to time be sufficient to effect the conversion of all shares of Series B Preferred Stock then outstanding and convertible into shares of Common Stock.

During the Twelve Month Period Beginning July 2	Price Per Share
-----	-----
1988	\$647.40
1989	\$642.66
1990	\$637.92
1991	\$633.18
1992	\$628.44
1993	\$623.70
1994	\$618.96
1995	\$614.22
1996	\$609.48
1997	\$604.74

Section 6. Redemption At the Option of the Company.

(A) The Series B Preferred Stock shall be redeemable, in whole or in part, at the option of the Company at any time after July 1, 1991 or on or before July 1991 if permitted by paragraph (C) or (D) of this Section 6, at the following redemption prices: \$600.00 per share, plus, in each case, an amount equal to all accumulated and unpaid dividends thereon to the date fixed for redemption. Payment of the redemption price shall be made by the Company in cash or shares of Common Stock, or a combination thereof, as permitted by paragraph (E) of this Section 6. From and after the date fixed

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for redemption, dividends on shares of Series B Preferred Stock called for redemption will cease to accrue, such shares will no longer be deemed to be outstanding and all rights in respect of such shares of the Company shall cease, except the right to receive the redemption price. If less than all of the outstanding shares of Series B Preferred Stock are to be redeemed, the Company shall either redeem a portion of the shares of each holder determined pro rata based on the number of shares held by each holder or shall select the shares to be redeemed by lot, as may be determined by the Board of Directors of the Company.

(B) Unless otherwise required by law, notice of redemption will be sent to the holders of Series B Preferred Stock at the address shown on the books of the Company or any transfer agent for the Series B Preferred Stock by first class mail, postage prepaid, mailed not less than twenty (20) days nor more than sixty (60) days prior to the redemption date. Each such notice shall state: (i) the redemption date; (ii) the total number of shares of the Series B Preferred Stock to be redeemed and, if fewer than all the shares held by such holder are to be redeemed, the number of such shares to be redeemed from such holder; (iii) the redemption price; (iv) the place or places where certificates for such shares are to be surrendered for payment of the redemption price; (v) that dividends on the shares to be redeemed will cease to accrue on such redemption date; and (vi) the conversion rights of the shares to be redeemed, the period within which conversion rights may be exercised, and the Conversion Price and number of shares of Common Stock issuable upon conversion of a share of Series B Preferred Stock at the time. Upon surrender of the certificates for any shares so called for redemption and not previously converted (properly endorsed or assigned for transfer, if the Board of Directors of the Company shall so require and the notice shall so state), such shares shall be redeemed by the Company at the date fixed for redemption and at the redemption price set forth in this Section 6.

(C) In the event of a change in the federal tax law of the United States of America which has the effect of precluding the Company from claiming any of the tax deductions for dividends paid on the Series B Preferred Stock when such dividends are used as provided under Section 404(k)(2) of the Internal Revenue Code of 1986, as amended and in effect on the date shares of Series B Preferred Stock are initially issued, the Company may, in its sole discretion and notwithstanding anything to the contrary in paragraph (A) of this Section 6, elect to redeem such shares for the amount payable in respect of the shares upon liquidation of the Company pursuant to Section 4 hereof.

(D) Notwithstanding anything to the contrary in paragraph (A) of this Section 6, the Company may elect to redeem any or all of the shares of Series B Preferred Stock at any time on or prior to July 1, 1991 on the terms and conditions set forth in paragraphs (A) and (B) of this Section 6, if the last reported sales price, regular way, of a share of Common Stock, as reported on the New York Stock Exchange Composite Tape or, if the Common Stock is not listed or admitted to trading on the New York Stock Exchange, on the principal national securities exchange on which such stock is listed or admitted to

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trading or, if the Common Stock is not listed or admitted to trading on any national securities exchange, on the National Market System of the National Association of Securities Dealers, Inc. Automated Quotation System ("NASDAQ") or, if the Common Stock is not quoted on such National Market System, the average of the closing bid and asked prices in over-the-counter market as

reported by NASDAQ, for at least twenty (20) trading days within a period of thirty (30) consecutive trading days ending within five (5) days of the notice of redemption equals or exceeds one hundred fifty percent (150%) of the Conversion Price (giving effect equitably in making such calculation to any adjustments required by Section 9 hereof).

(E) The Company, at its option, may make payment of the redemption price required upon redemption of shares of Series B Preferred Stock in cash or in shares of Common Stock, or in a combination of such shares and cash, any such shares to be valued for such purpose at their Fair Market Value (as defined in paragraph (G) of Section 9 hereof, provided, however, that in calculating their Fair Market Value the Adjustment Period shall be deemed to be the five (5) consecutive trading days preceding, and including, the date of redemption).

Section 7. Other Redemption Rights.

Shares of Series B Preferred Stock shall be redeemed by the Company for cash or, if the Company so elects, in shares of Common Stock, or a combination of such shares and cash, any such shares of Common Stock to be valued for such purpose as provided by paragraph (E) of Section 6, at a redemption price of \$600.00 per share plus accumulated and unpaid dividends thereon to the date fixed for redemption, at the option of the holder, at any time and from time to time upon notice to the Company given not less than five (5) business days prior to the date fixed by the holder in such notice for such redemption, when and to the extent necessary (i) for such holder to provide for distributions required to be made under, or to satisfy an Investment election provided to participants in accordance with, the J. C. Penney Company, Inc. Savings, Profit-Sharing and Stock Ownership Plan, dated and effective as of August 22, 1988, as the same may be amended, or any successor plan (the "plan") to participants in the Plan or (ii) for such holder to make payment of principal, interest or premium due and payable (whether as scheduled or upon acceleration) on the 8.17% ESOP Notes Due July 1, 1998 of the trust under the Plan or any indebtedness incurred by the holder for the benefit of the Plan.

Section 8. Consolidation, Merger, etc.

(A) In the event that the Company shall consummate any consolidation or merger or similar transaction, however named, pursuant to which the outstanding shares of Common Stock are by operation of law exchanged solely for or changed, reclassified or converted solely into stock of any successor or resulting company (including the Company) that constitutes "qualifying employer securities" with respect to a holder of Series B Preferred Stock within the meaning of Section 409(l) of the Internal Revenue Code of 1986, as amended, and Section 407(c)(5) of the Employee Retirement Income Security Act of 1974, as amended, or any successor provisions of

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law, and, if applicable, for a cash payment in lieu of fractional shares, if any, the shares of Series B Preferred Stock of such holder shall be assumed by and shall become preferred stock of such successor or resulting company, having in respect of such company insofar as possible the same powers, preferences and relative, participating, optional or other special rights (including the redemption rights provided by Sections 6, 7 and 8 hereof), and the qualifications, limitations or restrictions thereon, that the Series B Preferred Stock had immediately prior to such transaction, except that after such transaction each share of the Series B Preferred Stock shall be convertible, otherwise on the terms and conditions provided by Section 5 hereof, into the qualifying employer securities so receivable by a holder of the number of shares of Common Stock into which such shares of Series B Preferred Stock could have been converted immediately prior to such transaction if such holder of Common Stock failed to exercise any rights of election to receive any kind or amount of stock, securities, cash or other property (other than such qualifying employer securities and a cash payment, if applicable, in lieu of fractional shares) receivable upon such transaction (provided that, if the kind or amount of qualifying employer securities receivable upon such transaction is not the same for each non-electing share, then the kind and amount of qualifying employer securities receivable upon such transaction for each non-electing share shall be the kind and amount so receivable per share by a plurality of the non-electing

shares). The rights of the Series B Preferred Stock as preferred stock of such successor or resulting company shall successively be subject to adjustments pursuant to Section 9 hereof after any such transaction as nearly equivalent to the adjustments provided for by such section prior to such transaction. The Company shall not consummate any such merger, consolidation or similar transaction unless all then outstanding shares of the Series B Preferred Stock shall be assumed and authorized by the successor or resulting company as aforesaid.

(B) In the event that the Company shall consummate any consolidation or merger or similar transaction, however named, pursuant to which the outstanding shares of Common Stock are by operation of law exchanged for or changed, reclassified or converted into other stock or securities or cash or any other property, or any combination thereof, other than any such consideration which is constituted solely of qualifying employer securities (as referred to in paragraph (A) of this Section 8) and cash payments, if applicable, in lieu of fractional shares, outstanding shares of Series B Preferred Stock shall, without any action on the part of the Company or any holder thereof (but subject to paragraph (C) of this Section 8), be deemed converted by virtue of such merger, consolidation or similar transaction immediately prior to such consummation into the number of shares of Common Stock into which such shares of Series B Preferred Stock could have been converted at such time and each share of Series B Preferred Stock shall, by virtue of such transaction and on the same terms as apply to the holders of Common Stock, be converted into or exchanged for the aggregate amount of stock, securities, cash or other property (payable in like kind) receivable by a holder of the number of shares of Common Stock into which such shares of Series B Preferred Stock could have been converted immediately prior to such transaction if such holder of Common Stock failed to exercise any rights of election as to the kind or amount of stock, securities, cash or other property receivable upon such transaction (provided that, if the kind or amount of stock, securities, cash or other

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property receivable upon such transaction is not the same for each non-electing share, then the kind and amount of stock, securities, cash or other property receivable upon such transaction for each non-electing share shall be the kind and amount so receivable per share by a plurality of the non-electing shares).

(C) In the event the Company shall enter into any agreement providing for any consolidation or merger or similar transaction described in paragraph (B) of this Section 8, then the Company shall as soon as practicable thereafter (and in any event at least ten (10) business days before consummation of such transaction) give notice of such agreement and the material terms thereof to each holder of Series B Preferred Stock and each such holder shall have the right to elect, by written notice to the Company, to receive, upon consummation of such transaction (if and when such transaction is consummated), from the Company or the successor of the Company, in redemption and retirement of such Series B Preferred Stock, a cash payment equal to the amount payable in respect of shares of Series B Preferred Stock upon liquidation of the Company pursuant to Section 4 hereof. No such notice of redemption shall be effective unless given to the Company prior to the close of business on the fifth business day prior to consummation of such transaction, unless the Company or the successor of the Company shall waive such prior notice, but any notice of redemption so given prior to such time may be withdrawn by notice of withdrawal given to the Company prior to the close of business on the fifth business day prior to consummation of such transaction.

Section 9. Anti-dilution Adjustment.

(A) In the event the Company shall, at any time or from time to time while any of the shares of the Series B Preferred Stock are outstanding, (i) pay a dividend or make a distribution in respect of the Common Stock in shares of Common Stock, (ii) subdivide the outstanding shares of Common Stock, or (iii) combine the outstanding shares of Common Stock into a smaller number of shares, in each case whether by reclassification of shares, recapitalization of the Company (including a recapitalization effected by a merger or consolidation to which Section 8 hereof does not apply) or otherwise, the Conversion Price in effect immediately prior to such action shall be adjusted by multiplying such Conversion Price by the fraction the numerator of which is the number of shares

of Common Stock outstanding immediately before such event and the denominator of which is the number of shares of Common Stock outstanding immediately after such event. An adjustment made pursuant to this paragraph 9(A) shall be given effect, upon payment of such a dividend or distribution, as of the record date for the determination of shareholders entitled to receive such dividend or distribution (on a retroactive basis) and in the case of a subdivision or combination shall become effective immediately as of the effective date thereof.

(B) In the event that the Company shall, at any time or from time to time while any of the shares of Series B Preferred Stock are outstanding, issue to holders of shares of Common Stock as a dividend or distribution, including by way of a reclassification of shares or a recapitalization of the Company, any right or warrant to purchase shares of Common Stock (but not including as such a right or warrant any

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security convertible into or exchangeable for shares of Common Stock) at a purchase price per share less than the Fair Market Value (as hereinafter defined) of a share of Common Stock on the date of issuance of such right or warrant, then, subject to the provisions of paragraphs (E) and (F) of this Section 9, the Conversion Price shall be adjusted by multiplying such Conversion Price by the fraction the numerator of which shall be the number of shares of Common Stock outstanding immediately before such issuance of rights or warrants plus the number of shares of Common Stock which could be purchased at the Fair Market Value of a share of Common Stock at the time of such issuance for the maximum aggregate consideration payable upon exercise in full of all such rights or warrants and the denominator of which shall be the number of shares of Common Stock outstanding immediately before such issuance of rights or warrants plus the maximum number of shares of Common Stock that could be acquired upon exercise in full of all such rights and warrants.

(C) In the event the Company shall, at any time or from time to time while any of the shares of Series B Preferred Stock are outstanding, issue, sell or exchange shares of Common Stock (other than pursuant to any right or warrant to purchase or acquire shares of Common Stock (including as such a right or warrant any security convertible into or exchangeable for shares of Common Stock) and other than pursuant to any employee or director incentive or benefit plan or arrangement, including any employment, severance or consulting agreement, of the Company or any subsidiary of the Company heretofore or hereafter adopted) for a consideration having a Fair Market Value on the date of such issuance, sale or exchange less than the Fair Market Value of such shares on the date of such issuance, sale or exchange, then, subject to the provisions of paragraphs (E) and (F) of this Section 9, the Conversion Price shall be adjusted by multiplying such Conversion Price by the fraction the numerator of which shall be the sum of (i) the Fair Market Value of all the shares of Common Stock outstanding on the day immediately preceding the first public announcement of such issuance, sale or exchange plus (ii) the Fair Market Value of the consideration received by the Company in respect of such issuance, sale or exchange of shares of Common Stock, and the denominator of which shall be the product of (i) the Fair Market Value of a share of Common Stock on the day immediately preceding the first public announcement of such issuance, sale or exchange multiplied by (ii) the sum of the number of shares of Common Stock outstanding on such day plus the number of shares of Common Stock so issued, sold or exchanged by the Company. In the event the Company shall, at any time or from time to time while any shares of Series B Preferred Stock are outstanding, issue, sell or, exchange any right or warrant to purchase or acquire shares of Common Stock (including as such a right or warrant any security convertible into or exchangeable for shares of Common Stock), other than any such issuance to holders of shares of Common Stock as a dividend or distribution (including by way of a reclassification of shares or a recapitalization of the Company) and other than pursuant to any employee or director incentive or benefit plan or arrangement (including any employment, severance or consulting agreement) of the Company or any subsidiary of the Company heretofore or hereafter adopted, for a consideration having a Fair Market Value on the date of such Issuance, sale or exchange less than the Non-Dilutive Amount (as hereinafter defined), then, subject to the provisions of

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paragraphs (E) and (F) of this Section 9, the Conversion Price shall be adjusted by multiplying such Conversion Price by a fraction the numerator of which shall be the sum of (i) the Fair Market Value of all the shares of Common Stock outstanding on the day immediately preceding the first public announcement of such issuance, sale or exchange plus (ii) the Fair Market Value of the consideration received by the Company in respect of such issuance, sale or exchange of such right or warrant plus (iii) the Fair Market Value at the time of such issuance of the consideration which the Company would receive upon exercise in full of all such rights or warrants, and the denominator of which shall be the product of (i) the Fair Market Value of a share of Common Stock on the day immediately preceding the first public announcement of such issuance, sale or exchange multiplied by (ii) the sum of the number of shares of Common Stock outstanding on such day plus the maximum number of shares of Common Stock which could be acquired pursuant to such right or warrant at the time of the issuance, sale or exchange of such right or warrant (assuming shares of Common Stock could be acquired pursuant to such right or warrant at such time).

(D) In the event the Company shall, at any time or from time to time while any of the shares of Series B Preferred Stock are outstanding, make an Extraordinary Distribution (as hereinafter defined) in respect of the Common Stock, whether by dividend, distribution, reclassification of shares or recapitalization of the Company (including a recapitalization or reclassification effected by a merger or consolidation to which Section 8 hereof does not apply) or effect a Pro Rate Repurchase (as hereinafter defined) of Common Stock, the Conversion Price in effect immediately prior to such Extraordinary Distribution or Pro Rata Repurchase shall, subject to paragraphs (E) and (F) of this Section 9, be adjusted by multiplying such Conversion Price by the fraction the numerator of which is (i) the product of (x) the number of shares of Common Stock outstanding immediately before such Extraordinary Distribution or Pro Rate Repurchase multiplied by (y) the Fair Market Value (as herein defined) of a share of Common Stock on the record date with respect to an Extraordinary Distribution, or on the applicable expiration date (including all extensions thereof) of any tender offer which is a Pro Rata Repurchase, or on the date of purchase with respect to any Pro Rata Repurchase which is not a tender offer, as the case may be, minus (ii) the Fair Market Value of the Extraordinary Distribution or the aggregate purchase price of the Pro Rata Repurchase, as the case may be, and the denominator of which shall be the product of (A) the number of shares of Common Stock outstanding immediately before such Extraordinary Dividend or Pro Rata Repurchase minus, in the case of a Pro Rata Repurchase, the number of shares of Common Stock repurchased by the Company multiplied by (B) the Fair Market Value of a share of Common Stock on the record date with respect to an Extraordinary Distribution or on the applicable expiration date (including all extensions thereof) of any tender offer which is a Pro Rata Repurchase or on the date of purchase with respect to any Pro Rata Repurchase which is not a tender offer, as the case may be. The Company shall send each holder of Series B Preferred Stock (i) notice of its intent to make any dividend or distribution and (ii) notice of any offer by the Company to make a Pro Rata Repurchase, in each case at the same time as, or as soon as practicable after, such offer is first communicated (including by announcement of a record date in accordance with the rules of any stock exchange on which the Common

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Stock is listed or admitted to trading) to holders of Common Stock. Such notice shall indicate the intended record date and the amount and nature of such dividend or distribution, or the number of shares subject to such offer for a Pro Rata Repurchase and the purchase price payable by the Company pursuant to such offer, as well as the Conversion Price and the number of shares of Common Stock into which a share of Series B Preferred Stock may be converted at such time.

(E) Notwithstanding any other provisions of this Section 9, the Company shall not be required to make any adjustment of the Conversion Price unless such adjustment would require an increase or decrease of at least one percent (1%) in the Conversion Price. Any lesser adjustment shall be carried forward and shall be made no later than the time of, and together with, the next subsequent adjustment which, together with any adjustment or adjustments so carried forward, shall amount to an increase or decrease of at least one percent (1%) in the Conversion Price.

(F) If the Company shall make any dividend or distribution on the Common Stock or issue any Common Stock, other capital stock or other security of the Company or any rights or warrants to purchase or acquire any such security, which transaction does not result in an adjustment to the Conversion Price pursuant to the foregoing provisions of this Section 9, the Board of Directors of the Company shall consider whether such action is of such a nature that an adjustment to the Conversion Price should equitably be made in respect of such transaction. If in such case the Board of Directors of the Company determines that an adjustment to the Conversion Price should be made, an adjustment shall be made effective as of such date, as determined by the Board of Directors of the Company. The determination of the Board of Directors of the Company as to whether an adjustment to the Conversion Price should be made pursuant to the foregoing provisions of this paragraph 9(F), and, if so, as to what adjustment should be made and when, shall be final and binding on the Company and all stockholders of the Company. The Company shall be entitled to make such additional adjustments in the Conversion Price, in addition to those required by the foregoing provisions of this Section 9, as shall be necessary in order that any dividend or distribution in shares of capital stock of the Company, subdivision, reclassification or combination of shares of stock of the Company or any recapitalization of the Company shall not be taxable to holders of the Common Stock.

(G) For purposes of this Resolution, the following definitions shall apply:

"Extraordinary Distribution" shall mean any dividend or other distribution (effected while any of the shares of Series B Preferred Stock are outstanding) (i) of cash, where the aggregate amount of such cash dividend or distribution together with the amount of all cash dividends and distributions made during the preceding period of 12 months, when combined with the aggregate amount of all Pro Rata Repurchases (for this purpose, including only that portion of the aggregate purchase price of such Pro Rata Repurchase which is in excess of the Fair Market Value of the Common Stock repurchased as determined on the applicable expiration date (including all extensions thereof) of any tender offer or exchange offer which is a Pro Rata Repurchase, or the

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date of purchase with respect to any other Pro Rata Repurchase which is not a tender offer or exchange offer made during such period), exceeds twelve and one-half percent (12-1/2%) of the aggregate Fair Market Value of all shares of Common Stock outstanding on the record date for determining the shareholders entitled to receive such Extraordinary Distribution and (ii) any shares of capital stock of the Company (other than shares of Common Stock), other securities of the Company (other than securities of the type referred to in paragraph (B) of this Section 9), evidences of indebtedness of the Company or any other person or any other property (including shares of any subsidiary of the Company), or any combination thereof. The Fair Market Value of an Extraordinary Distribution for purposes of paragraph (D) of this Section 9 shall be the sum of the Fair Market Value of such Extraordinary Distribution plus the amount of any cash dividends which are not Extraordinary Distributions made during such twelve month period and not previously included in the calculation of an adjustment pursuant to paragraph (D) of this Section 9.

"Fair Market Value" shall mean, as to shares of Common Stock or any other class of capital stock or securities of the Company or any other issuer which are publicly traded, the average of the Current Market Prices (as hereinafter defined) of such shares or securities for each day of the Adjustment Period (as hereinafter defined). "Current Market Price" of publicly traded shares of Common Stock or any other class of capital stock or other security of the Company or any other issuer for a day shall mean the last reported sales price, regular way, or, in case no sale takes place on such day, the average of the reported closing bid and asked prices, regular way, in either case as reported on the New York Stock Exchange Composite Tape or, if such security is not listed or admitted to trading on the New York Stock Exchange, on the principal national securities exchange on which such security is listed or admitted to trading or, if not listed or admitted to trading on any national securities exchange, on the NASDAQ National Market System or, if such security is not quoted on such National Market System, the average of the closing bid and asked prices on each such day in the over-the-counter market as reported by NASDAQ or, if bid and

asked prices for such security on each such day shall not have been reported through NASDAQ, the average of the bid and asked prices for such day as furnished by any New York Stock Exchange member firm regularly making a market in such security selected for such purpose by the Board of Directors of the Company or a committee thereof on each trading day during the Adjustment Period. "Adjustment Period" shall mean the period of five (5) consecutive trading days, selected by the Board of Directors of the Company or a committee thereof, during the 20 trading days preceding, and including, the date as of which the Fair Market Value of a security is to be determined. The "Fair Market Value" of any security which is not publicly traded or of any other property shall mean the fair value thereof as determined by an independent investment banking or appraisal firm experienced in the valuation of such securities or property selected in good faith by the Board of Directors of the Company or a committee thereof, or, if no such investment banking or appraisal firm is in the good faith judgment of the Board of Directors or such committee available to make such determination, as determined in good faith by the Board of Directors of the Company or such committee.

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"Non-Dilutive Amount" in respect of an issuance, sale or exchange by the Company of any right or warrant to purchase or acquire shares of Common Stock (including any security convertible into or exchangeable for shares of Common Stock) shall mean the remainder of (i) the product of the Fair Market Value of a share of Common Stock on the day preceding the first public announcement of such issuance, sale or exchange multiplied by the maximum number of shares of Common Stock which could be acquired on such date upon the exercise in full of such rights and warrants (including upon the conversion or exchange of all such convertible or exchangeable securities), whether or not exercisable (or convertible or exchangeable) at such date, minus (ii) the aggregate amount payable pursuant to such right or warrant to purchase or acquire such maximum number of shares of Common Stock; provided, however, that in no event shall the Non-Dilutive Amount be less than zero. For purposes of the foregoing sentence, in the case of a security convertible into or exchangeable for shares of Common Stock, the amount payable pursuant to a right or warrant to purchase or acquire shares of Common Stock shall be the Fair Market Value of such security on the date of the issuance, sale or exchange of such security by the Company.

"Pro Rata Repurchase" shall mean any purchase of shares of Common Stock by the Company or any subsidiary thereof, whether for cash, shares of capital stock of the Company, other securities of the Company, evidences of indebtedness of the Company or any other person or any other property (including shares of a subsidiary of the Company), or any combination thereof, effected while any of the shares of Series B Preferred Stock are outstanding, pursuant to any tender offer or exchange offer subject to Section 13(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or any successor provision of law, or pursuant to any other offer available to substantially all holders of Common Stock; provided, however, that no purchase of shares by the Company or any subsidiary thereof made in open market transactions shall be deemed a Pro Rata Repurchase. For purposes of this paragraph 9(G), shares shall be deemed to have been purchased by the Company or any subsidiary thereof "in open market transactions" if they have been purchased substantially in accordance with the requirements of Rule 10b-18 as in effect under the Exchange Act, on the date shares of Series B Preferred Stock are initially issued by the Company or on such other terms and conditions as the Board of Directors of the Company or a committee thereof shall have determined are reasonably designed to prevent such purchases from having a material effect on the trading market for the Common Stock.

(H) Whenever an adjustment to the Conversion Price and the related voting rights of the Series B Preferred Stock is required pursuant to this Resolution, the Company shall forthwith place on file with the transfer agent for the Common Stock and the Series B Preferred Stock if there be one, and with the Secretary of the Company, a statement signed by two officers of the Company stating the adjusted Conversion Price determined as provided herein and the resulting conversion ratio, and the voting rights (as appropriately adjusted), of the Series B Preferred Stock. Such statement shall set forth in reasonable detail such facts as shall be necessary to show the reason and the manner of computing such adjustment, including any determination of Fair Market Value

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involved in such computation. Promptly after each adjustment to the Conversion Price and the related voting rights of the Series B Preferred Stock, the Company shall mail a notice thereof and of the then prevailing conversion ratio to each holder of shares of the Series B Preferred Stock.

Section 10. Ranking Attributable Capital and Adequacy of Surplus;

Retirement of Shares.

(A) The Series B Preferred Stock shall rank senior to the Series A Preferred Stock and the Common Stock as to the payment of dividends and the distribution of assets on liquidation, dissolution and winding up of the Company, and, unless otherwise provided in the Restated Certificate of Incorporation of the Company, as amended, or a Certificate of Designations relating to a subsequent series of Preferred Stock, without par value, of the Company, the Series B Preferred Stock shall rank junior to all other series of the Company's Preferred Stock, without par value, as to the payment of dividends and the distribution of assets on liquidation, dissolution or winding up.

(B) The capital of the Company allocable to the Series B Preferred Stock for purposes of the Delaware General Corporation Law (the "Corporation Law") shall be \$600.00 per share. In addition to any vote of stockholders required by law, the vote of the holders of a majority of the outstanding shares of Series B Preferred Stock shall be required to increase the par value of the Common Stock or otherwise increase the capital of the Company allocable to the Common Stock for the purpose of the Corporation Law if, as a result thereof, the surplus of the Company for purposes of the Corporation Law would be less than the amount of Preferred Dividends that would accrue on the then outstanding shares of Series B Preferred Stock during the following three years.

(C) Any shares of Series B Preferred Stock acquired by the Company by reason of the conversion or redemption of such shares as provided by this Resolution, or otherwise so acquired, shall be retired as shares of Series B Preferred Stock and restored to the status of authorized but unissued shares of preferred stock, without par value, of the Company, undesignated as to series, and may thereafter be reissued as part of a new series of such preferred stock as permitted by law.

Section 11. Miscellaneous.

(A) All notices referred to herein shall be in writing, and all notices hereunder shall be deemed to have been given upon the earlier of receipt thereof or three (3) business days after the mailing thereof if sent by registered mail (unless first-class mail shall be specifically permitted for such notice under the terms of this Resolution) with postage prepaid, addressed: (i) if to the Company, to its office at 14841 North Dallas Parkway, Dallas Texas 75240 (Attention: Secretary) or to the transfer agent for the Series B Preferred Stock, or other agent of the Company designated as permitted by this Resolution or (ii) if to any holder of the Series B Preferred Stock or

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Common Stock, as the case may be, to such holder at the address of such holder as listed in the stock record books of the Company (which may include the records of any transfer agent for the Series B Preferred Stock or Common Stock, as the case may be) or (iii) to such other address as the Company or any such holder, as the case may be, shall have designated by notice similarly given.

(B) The term "Common Stock" as used in this Resolution means the Company's Common Stock of 50(cent) par value, as the same exists at the date of filing of a Certificate of Designations relating to Series B Preferred Stock or any other class of stock resulting from successive changes or reclassification of such Common Stock consisting solely of changes in par value, or from par value to no par value, or from no par value to par value. In the event that, at any time as a result of an adjustment made pursuant to Section 9 of this Resolution, the

holder of any share of the Series B Preferred Stock upon thereafter surrendering such shares for conversion shall become entitled to receive any shares or other securities of the Company other than shares of Common Stock, the Conversion Price in respect of such other shares or securities so receivable upon conversion of shares of Series B Preferred Stock shall thereafter be adjusted, and shall be subject to further adjustment from time to time, in a manner and on terms as nearly equivalent as practicable to the provisions with respect to Common Stock contained in Section 9 hereof, and the provisions of Sections 1 through 8 and 10 and 11 of this Resolution with respect to the Common Stock shall apply on like or similar terms to any such other shares or securities.

(C) The Company shall pay any and all stock transfer and documentary stamp taxes that may be payable in respect of any issuance or delivery of shares of Series B Preferred Stock or shares of Common Stock or other securities issued on account of Series B Preferred Stock pursuant hereto or certificates representing such shares or securities. The Company shall not, however, be required to pay any such tax which may be payable in respect of any transfer involved in the issuance or delivery of shares of Series B Preferred Stock or Common Stock or other securities in a name other than that in which the shares of Series B Preferred Stock with respect to which such shares or other securities are issued or delivered were registered, or in respect of any payment to any person with respect to any such shares or securities other than a payment to the registered holder thereof, and shall not be required to make any such issuance, delivery or payment unless and until the person otherwise entitled to such issuance, delivery or payment has paid to the Company the amount of any such tax or has established, to the satisfaction of the Company, that such tax has been paid or is not payable.

(D) In the event that a holder of shares of Series B Preferred Stock shall not by written notice designate the name in which shares of Common Stock to be issued upon conversion of such shares should be registered or to whom payment upon redemption of shares of Series B Preferred Stock should be made or the address to which the certificate or certificates representing such shares, or such payment, should be sent, the Company shall be entitled to register such shares, and make such payment, in the name of the holder of such Series B Preferred Stock as shown on the

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records of the Company and to send the certificate or certificates representing such shares, or such payment, to the address of such holder shown on the records of the Company.

(E) Unless otherwise provided in the Restated Certificate of Incorporation, as amended, of the Company, all payments in the form of dividends, distributions on voluntary or involuntary dissolution, liquidation or winding-up or otherwise made upon the shares of Series B Preferred Stock and any other stock ranking on a parity with the Series B Preferred Stock with respect to such dividend or distribution shall be made pro rata, so that amounts paid per share on the Series B Preferred Stock and such other stock shall in all cases bear to each other the same ratio that the required dividends, distributions or payments, as the case may be, then payable per share on the shares of the Series B Preferred Stock and such other stock bear to each other.

(F) The Company may appoint, and from time to time discharge and change, a transfer agent for the Series B Preferred Stock. Upon any such appointment or discharge of a transfer agent, the Company shall send notice thereof by first-class mail, postage prepaid, to each holder of record of Series B Preferred Stock.

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J. C. PENNEY COMPANY, INC.

(A Delaware Corporation)

BYLAWS

As amended to May 19, 2006

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J. C. PENNEY COMPANY, INC.

(A Delaware Corporation)

BYLAWS

ARTICLE I OFFICES

SECTION 1. Registered Office. The registered office of J. C. Penney

Company, Inc. (hereinafter called the Company) in the State of Delaware shall be at 1209 Orange Street, City of Wilmington, County of New Castle. The name of the registered agent in charge thereof is The Corporation Trust Company.

SECTION 2. Other Offices. The Company may also have an office or offices at

such other place or places either within or without the State of Delaware as from time to time the Board of Directors may determine or the business of the Company may require.

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ARTICLE II MEETINGS OF STOCKHOLDERS

SECTION 1. Annual Meetings. The annual meeting of stockholders for the

election of directors and for the transaction of such other business as may come before the meeting shall be held at such place and time as shall be fixed by the Board of Directors and specified in the notice of the meeting, on the third Tuesday in May in each year, or on such other day as shall be fixed by the Board of Directors and specified in the notice of the meeting. If the election of

directors shall not be held on the day designated herein or the day fixed by the Board, as the case may be, for any annual meeting, or on the day of any adjourned session thereof, the Board of Directors shall cause the election to be held at a special meeting as soon thereafter as convenient. At such special meeting, the stockholders may elect the directors and transact other business with the same force and effect as at an annual meeting duly called and held.

SECTION 2. Special Meetings. Any action required or permitted to be taken

by the holders of the Common Stock of the Company must be effected at a duly called annual or special meeting of such holders and may not be effected by any consent in writing by such holders. A special meeting of stockholders for any purpose or purposes, unless otherwise prescribed by the laws of the State of Delaware or by the certificate of incorporation, may be called at any time only by the Board of Directors pursuant

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to a resolution approved by a majority of the Board of Directors. Special meetings of stockholders may be held at such place, on such date, and at such time as shall be designated by resolution of the Board of Directors.

SECTION 3. Notice of Meetings. Except as otherwise required by the laws of

the State of Delaware or the certificate of incorporation, notice of each annual or special meeting of stockholders shall be given not less than 10 nor more than 60 days before the day on which the meeting is to be held to each stockholder of record entitled to vote at the meeting by delivering a written notice thereof to him or her personally, or by depositing a copy of the notice in the United States mail, postage prepaid, directed to him or her at his or her address as it appears on the records of the Company, or by transmitting the notice thereof to him or her at such address by telegram, cable, radiogram, telephone facsimile, or other appropriate written communication. Except when expressly required by the laws of the State of Delaware, no publication of any notice of a meeting of stockholders shall be required. Every such notice shall state the place, date, and time of the meeting, and in the case of a special meeting, the purpose or purposes thereof. Notice of any adjourned session of a meeting of stockholders shall not be required to be given if the place, date, and time thereof are announced at the meeting at which the adjournment is taken. If, however, the adjournment is for more than 30 days, or if after the adjournment

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a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

SECTION 4. List of Stockholders. It shall be the duty of the officer who

shall have charge of the stock ledger of the Company to prepare and make, at least 10 days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least 10 days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected, for any purpose germane to the meeting, by any stockholder who is present. The stock ledger shall be the only evidence as to who are the stockholders entitled to examine such list or to vote in person or by proxy at the meeting.

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SECTION 5. Quorum. At each meeting of stockholders, the holders of a

majority of the issued and outstanding shares of stock of the Company entitled to vote at the meeting, present in person or represented by proxy, shall constitute a quorum for the transaction of business. In the absence of a quorum at any meeting, or any adjourned session thereof, the stockholders of the Company present in person or represented by proxy and entitled to vote, by majority vote, or in the absence of all the stockholders, any officer entitled to preside or act as secretary at the meeting, may adjourn the meeting from time to time until a quorum shall be present. At any such adjourned meeting at which a quorum shall be present, any business may be transacted which might have been transacted at the meeting as originally called.

SECTION 6. Organization and Conduct of Meeting. At each meeting of

stockholders, the Chairman of the Board or in his or her absence a Vice Chairman of the Board or in his or her absence a chairman chosen by the vote of a majority in interest of the stockholders present in person or represented by proxy and entitled to vote thereat, shall act as chairman. The Secretary or in his or her absence an Assistant Secretary or in the absence of the Secretary and all Assistant Secretaries a person whom the chairman of the meeting shall appoint shall act as secretary of the meeting and keep a record of the proceedings thereof. The date and time of the opening and the closing of the polls for each matter upon which the stockholders will vote at a meeting shall be

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announced at the meeting by the person presiding over the meeting. The Board of Directors may adopt by resolution such rules and regulations for the conduct of the meeting of stockholders as it shall deem necessary, appropriate, or convenient. Except to the extent inconsistent with such rules and regulations as adopted by the Board of Directors, the chairman of any meeting of stockholders shall have the right and authority to prescribe such rules, regulations, and procedures and to do all such acts as, in the judgment of such chairman, are necessary, appropriate, or convenient for the proper conduct of the meeting. Such rules, regulations, or procedures, whether adopted by the Board of Directors or prescribed by the chairman of the meeting, may include, without limitation, the following: (i) the establishment of an agenda or order of business for the meeting, (ii) rules and procedures for maintaining order at the meeting and the safety of those present, (iii) limitations on attendance at or participation in the meeting to stockholders of record of the Company, their duly authorized and constituted proxies, or such other persons as the chairman of the meeting shall determine, (iv) restrictions on entry to the meeting after the time fixed for the commencement thereof, and (v) limitations on the time allotted to questions or comments by participants. Unless, and to the extent determined by the Board of Directors or the chairman of the meeting, meetings of stockholders shall not be required to be held in accordance with the rules of parliamentary procedure.

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SECTION 7. Notification of Stockholder Business. At a meeting of the

stockholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before a meeting, business must be (i) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors, (ii) otherwise properly brought before the meeting by or at the direction of the Board of Directors, or (iii) in the case of an annual meeting of stockholders, otherwise properly requested to be brought before the meeting by a stockholder of record entitled to vote at the meeting and otherwise a proper subject to be brought before such meeting. For business to be properly requested to be brought before an annual meeting of stockholders, any stockholder who desires to bring any matter (other than the election of directors, which is provided for in Section 15 of Article III of these Bylaws) before such meeting and who is entitled to vote on such matter must give timely written notice of such stockholder's desire to bring such matter before the meeting, either by personal delivery or by United States mail, postage prepaid, to the Secretary of the Company not later than 90 days in advance of such meeting. A stockholder's notice to the Secretary in this regard shall set forth: (1) the name and address of the stockholder proposing such business, (2) a representation that such stockholder is a record owner of stock

of the Company entitled to vote at the meeting and intends to appear in person at the meeting to present the described business, (3) a brief description of the

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business desired to be brought before the meeting and the reasons for conducting such business at the meeting, and (4) any material interest of the stockholder in such business. Notwithstanding anything in these Bylaws to the contrary, no business may be conducted at a meeting except in accordance with the procedures set forth in this Article II of these Bylaws. The chairman of a meeting may, if the facts warrant, or if not in accordance with applicable law, determine and declare to the meeting that business proposed to be brought before a meeting was not a proper subject therefor or was not properly brought before the meeting in accordance with the provisions of this Section 7, and if he should so determine, he may so declare to the meeting, and any such business not a proper subject matter or not properly brought before the meeting shall not be transacted.

SECTION 8. Voting; Proxies; Ballots. Except as otherwise provided in the

laws of the State of Delaware or the certificate of incorporation, at every meeting of stockholders, each stockholder of the Company shall be entitled to one vote at the meeting in person or by proxy for each share of stock having voting rights registered in his or her name on the books of the Company on the date fixed pursuant to Section 3 of Article VII of these Bylaws as the record date for the determination of stockholders entitled to vote at the meeting. Shares of its own stock belonging to the Company shall not be voted directly or indirectly (except for shares of stock held by the Company in a

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fiduciary capacity). The vote of any stockholder entitled thereto may be cast in person or by his or her proxy appointed by an instrument in writing, or by a telegram, cablegram, or other means of electronic transmission, to the full extent permitted by the laws of the State of Delaware; provided, however, that no proxy shall be voted after three years from its date, unless the proxy provides for a longer period. At all meetings of stockholders, each question (except where other provision is made in the laws of the State of Delaware, in the certificate of incorporation, or in these Bylaws) shall be decided by the vote of the holders of shares of stock having a majority of the votes which could be cast by the holders of all shares of stock outstanding and entitled to vote thereon. All elections of directors and all votes on matters set forth in the notice of meeting shall be by written ballot stating the number of shares voted, but except as otherwise provided in the laws of the State of Delaware, the vote on any other matter need not be by ballot unless directed by the chairman of the meeting. On a vote by ballot, each ballot shall be signed by the stockholder voting, or by his or her proxy, if there be such proxy, and shall state the number of shares voted.

SECTION 9. Inspectors of Election. The Company shall, in advance of any

meeting of stockholders, appoint one or more inspectors of election, who may be employees of the Company, to act at the meeting or any adjournment thereof and to make a written report thereof. The Company may designate one or more

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persons as alternate inspectors to replace any inspector who fails to act. In the event that no inspector so appointed or designated is able to act at a meeting of stockholders, the person presiding at the meeting shall appoint one or more inspectors to act at the meeting. Each inspector, before entering upon the discharge of his or her duties, shall take and sign an oath to execute faithfully the duties of inspector with strict impartiality and according to the best of his or her ability.

The inspector or inspectors so appointed or designated shall (i) ascertain the number of shares of stock of the Company outstanding and the voting power of each such share, (ii) determine the shares of stock of the Company represented at the meeting and the validity of proxies and ballots, (iii) count all votes

and ballots, (iv) determine and retain for a reasonable period a record of the disposition of any challenges made to any determination by the inspectors, and (v) certify their determination of the number of shares of stock of the Company represented at the meeting and such inspectors' count of all votes and ballots. Such certification and report shall specify such other information as may be required by law. In determining the validity and counting of proxies and ballots cast at any meeting of stockholders of the Company, the inspectors may consider such information as is permitted by applicable law. No person who is a candidate for an office at an election may serve as an inspector at such election.

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ARTICLE III BOARD OF DIRECTORS

SECTION 1. General Powers. The business, property, and affairs of the

Company shall be managed by or under the direction of the Board of Directors. In addition to the powers and authorities expressly conferred upon the Board of Directors by the certificate of incorporation and these Bylaws, the Board of Directors may exercise all such powers of the Company and do all such lawful acts and things as are not by the laws of the State of Delaware, the certificate of incorporation, or these Bylaws directed or required to be exercised or done by the stockholders.

SECTION 2. Eligibility and Retirement. No person may serve as a director

unless he or she is a stockholder of the Company. Notwithstanding the expiration of a director's term as set forth in Section 3 of this Article III, no person shall be qualified or may continue to serve as a director after attaining age 70.

SECTION 3. Number and Classification of Directors. Except as otherwise

provided for or fixed by or pursuant to the provisions of Article Fourth of the certificate of incorporation relating to the rights of the holders of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation to elect additional directors under specified circumstances, the number of directors of the Company which shall

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constitute the whole Board of Directors shall be such number, not less than three, as from time to time shall be fixed by the Board of Directors. Subject to the provisions of this Section 3 below, until the 2009 annual meeting of stockholders, when the following classification shall cease, the directors, other than those who may be elected pursuant to the aforesaid provisions of said Article Fourth, shall be classified by the Board of Directors, with respect to the duration of the term for which they severally hold office, into three classes as nearly equal in number as possible. Such classes shall originally consist of a first class of four directors who shall be elected at the annual meeting of stockholders held in 1985 for a term expiring at the annual meeting of stockholders to be held in 1986, and election and qualification of their respective successors; a second class of five directors who shall be elected at the annual meeting of stockholders held in 1985 for a term expiring at the annual meeting of stockholders to be held in 1987, and election and qualification of their respective successors; and a third class of five directors who shall be elected at the annual meeting of stockholders held in 1985 for a term expiring at the annual meeting of stockholders to be held in 1988, and election and qualification of their respective successors. At each annual meeting of stockholders, until the 2007 annual meeting of stockholders, the successors of the class of directors whose term expires at that meeting shall be elected for a term expiring at

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the annual meeting of stockholders held in the third year following the year of election of such directors and election and qualification of their respective

successors. Subject to the provisions of this Section 3 below, until the 2009 annual meeting of stockholders, when the classification of the Board of Directors shall cease, the Board of Directors shall increase or decrease the number of directors in one or more classes as may be appropriate whenever it increases or decreases the number of directors pursuant to this Section 3, in order to ensure that the three classes shall be as nearly equal in number as possible. Directors elected at or after the annual meeting of stockholders to be held in 2007 shall hold office until the first annual meeting of stockholders following their election and until his or her successor shall have been duly elected and qualified or until the director's prior death, resignation or removal.

SECTION 4. Quorum and Manner of Acting. A majority of the directors at the

time in office shall constitute a quorum for the transaction of business at any meeting, which in no case shall be less than one third of the total number of directors. Except as otherwise provided in the laws of the State of Delaware, the certificate of incorporation, or these Bylaws, the affirmative vote of a majority of the directors present at any meeting at which a quorum is present shall be required for the taking of any action by the Board of Directors. In the absence of a quorum at any meeting of the Board, the meeting need not be held, or a

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majority of the directors present thereat or if no director be present, the Secretary, may adjourn the meeting from time to time until a quorum shall be present. Notice of any adjourned meeting need not be given. At any adjourned meeting at which a quorum shall be present, any business may be transacted which might have been transacted at the meeting as originally called. Members of the Board of Directors may participate in a meeting of the Board by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in the meeting by such means shall constitute presence in person at the meeting.

SECTION 5. Offices; Places of Meetings. The Board of Directors may hold

meetings and have an office or offices at such place or places within or without the State of Delaware as the Board may from time to time determine, and in the case of meetings, as shall be specified or fixed in the respective notices or waivers of notice thereof, except where other provision is made in the laws of the State of Delaware, the certificate of incorporation, or these Bylaws.

SECTION 6. Annual Meeting. The Board of Directors shall meet for the

purpose of organization, the election of officers, and the transaction of other business, at the time of each annual election of directors. Such meeting may be held prior to the stockholders' meeting, if deemed necessary and appropriate, and if so held,

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would be held subject to the election of directors at the upcoming stockholders' meeting; provided, however, that no individual not then a director may act as a director prior to his or her election at the upcoming stockholders' meeting. Such meeting shall be called and held at the place and time specified in the notice or waiver and held at the place and time specified in the notice or waiver of notice thereof as in the case of a special meeting of the Board of Directors.

SECTION 7. Regular Meetings. Regular meetings of the Board of Directors

shall be held as the Board of Directors shall determine, at such times and places as shall from time to time be determined by the Board, except that in May, the regular meeting shall be held immediately following the adjournment of the annual meeting of the Board. Notice of regular meetings need not be given.

SECTION 8. Special Meetings; Notice. Special meetings of the Board of

Directors shall be held whenever called by the Chairman of the Board or a Vice

Chairman of the Board or by any two of the directors. Notice of each such meeting shall be mailed to each director, addressed to such director at his or her residence or usual place of business, at least two days before the day on which the meeting is to be held, or shall be sent to such director at his or her residence or such place of business by telegram, cable, radiogram, telephone facsimile, or other appropriate written communication, or delivered personally or by telephone, not later

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than the day before the day on which the meeting is to be held. Each such notice shall state the time and place of the meeting but need not state the purposes thereof except as otherwise herein expressly provided.

SECTION 9. Organization. At each meeting of the Board of Directors, the

Chairman of the Board or in his or her absence, a Vice Chairman of the Board or in his or her absence, a director chosen by a majority of the directors present, shall act as chairman. The Secretary or in his or her absence, an Assistant Secretary or in the absence of the Secretary and all Assistant Secretaries, a person whom the chairman of the meeting shall appoint, shall act as secretary of the meeting and keep a record of the proceedings thereof.

SECTION 10. Order of Business. At all meetings of the Board of Directors,

business shall be transacted in the order determined by the Board.

SECTION 11. Resignation. Any director may resign at any time by giving

written notice of his or her resignation to the Board of Directors or to the Chairman of the Board, a Vice Chairman of the Board, or the Secretary. Such resignation shall take effect at the date of receipt of the notice or at any later time specified therein; and unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

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SECTION 12. Removal of Directors. Any director may be removed, either with

or without cause, at any time, by the affirmative vote of at least 80% of the combined voting power of the then-outstanding shares of all classes and series of stock of the Company entitled to vote generally in the election of directors, voting together as a single class, at a special meeting of stockholders duly called and held for the purpose or at an annual meeting of stockholders.

SECTION 13. Vacancies. Any vacancy in the Board of Directors caused by

death, resignation, removal, disqualification, increase in the number of directors, or any other cause, shall be filled by a majority vote of the remaining directors, even though less than a quorum, or by the stockholders at a special meeting duly called and held for the purpose or at an annual meeting, and each director so elected shall hold office until the next succeeding annual meeting of stockholders following such director's election and until such director's successor shall have been elected and qualified, including in circumstances where such director's predecessor was elected to a longer term.

SECTION 14. Remuneration. Directors and members of any committee may

receive such fixed sum per meeting attended, or such annual sum or sums, and such reimbursement for expenses of attendance at meetings, as may be determined from time to time by resolution of the Board of Directors. Nothing herein contained shall be construed to preclude any director from serving the

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Company in any other capacity and receiving proper compensation therefor.

SECTION 15. Notification of Nominations. Nominations for the election of

directors may be made by the Board of Directors or by any stockholder entitled to vote for the election of directors. Any stockholder entitled to vote for the election of directors at a meeting may nominate persons for election as directors only if written notice of such stockholder's intent to make such nomination is given, either by personal delivery or by United States mail, postage prepaid, to the Secretary of the Company, not later than (i) with respect to an election to be held at an annual meeting of stockholders, 90 days in advance of such meeting, and (ii) with respect to an election to be held at a special meeting of stockholders for the election of directors, the close of business on the seventh day following the date on which notice of such meeting is first given to stockholders. Each such notice shall set forth: (a) the name and address of the stockholder who intends to make the nomination and of the person or persons to be nominated, (b) a representation that such stockholder is a holder of record of stock of the Company entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice, (c) a description of all arrangements or understandings between such stockholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or

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nominations are to be made by such stockholder, (d) such other information regarding each nominee proposed by such stockholder as would have been required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission had each nominee been nominated, or intended to be nominated by the Board of Directors, and (e) the consent of each nominee to serve as a director of the Company if so elected. The chairman of the meeting may refuse to acknowledge the nomination of any person not made in compliance with the foregoing procedures.

SECTION 16. Action of the Board of Directors by Consent. Any action

required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting if all members of the Board or of such committee, as the case may be, consent thereto in writing and the writing or writings are filed with the minutes of proceedings of the Board or such committee.

ARTICLE IV
COMMITTEES

SECTION 1. Executive Committee. The Board of Directors may, by resolution

passed by a majority of the whole Board, designate directors of the Company, in such number as the Board shall see fit, but not less than two, as an Executive Committee which shall have and may exercise, during intervals between meetings of the

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Board, the powers and authority of the Board of Directors in the management of the business and affairs of the Company, and may authorize the seal of the Company to be affixed to all papers which may require it; but the Executive Committee shall not have the power or authority in reference to filling vacancies in its membership, amending the certificate of incorporation (except that the Executive Committee (or any committee designated pursuant to Section 6 of this Article IV) may, to the full extent permitted by the laws of the State of Delaware, make determinations with respect to the issuance of stock of the Company), adopting an agreement of merger or consolidation, recommending to the stockholders the sale, lease, or exchange of all or substantially all the Company's property and assets, recommending to the stockholders a dissolution of the Company or a revocation of a dissolution, amending these Bylaws, or declaring a dividend. The Executive Committee (or any committee designated pursuant to Section 6 of this Article IV) shall have the power or authority to authorize the issuance of stock of the Company. The Board of Directors shall designate one of the members of the Executive Committee to be the Chairman of the Committee. Each member of the Executive Committee shall continue to act as

such only so long as he or she shall be a director of the Company and only during the pleasure of a majority of the whole Board of Directors.

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SECTION 2. Meetings. Regular meetings of the Executive Committee, of which

no notice shall be necessary, shall be held on such days and at such places, within or without the State of Delaware, as shall be fixed by resolution adopted by a majority of, and communicated to all, the members of the Executive Committee. Special meetings of the Committee may be called at the request of any member. Notice of each special meeting of the Committee shall be mailed to each member thereof, addressed to such member at his or her residence or usual place of business, at least two days before the day on which the meeting is to be held, or shall be sent to such member at his or her residence or such place of business by telegram, cable, radiogram, telephone facsimile, or other appropriate written communication, or delivered personally or by telephone, not later than the day before the day on which the meeting is to be held. Each such notice shall state the time and place of the meeting but need not state the purposes thereof except as otherwise herein expressly provided. Subject to the provisions of this Article IV, the Executive Committee, by resolution of a majority of all its members, shall fix its own rules of procedure. The Executive Committee shall keep a record of its proceedings and report them to the Board of Directors at the next regular meeting thereof after such proceedings shall have been taken.

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SECTION 3. Quorum and Manner of Acting. Not less than a majority of the

members of the Executive Committee then in office shall constitute a quorum for the transaction of business, and the act of a majority of those present at a meeting thereof at which a quorum is present shall be the act of the Executive Committee. The directors comprising the Committee shall act only as a committee, and such directors, individually, shall have no power as such. Members of the Executive Committee, or any committee designated by the Board of Directors, may participate in a meeting of such committee by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in the meeting by such means shall constitute presence in person at the meeting.

SECTION 4. Vacancies. The Board of Directors, by vote of a majority of the

whole Board, shall have power to fill any vacancy in the Executive Committee due to death, resignation, removal, disqualification, or any other cause.

SECTION 5. Resignation. Any director may resign from the Executive

Committee at any time by giving written notice of his or her resignation to the Board of Directors or to the Chairman of the Board, the Chairman of the Executive Committee, a Vice Chairman of the Board, or the Secretary. Such resignation shall take effect at the date of receipt of the notice or at any later

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time specified therein; and unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

SECTION 6. Other Committees. The Board of Directors may, by resolution or

resolutions passed by a majority of the whole Board, designate one or more other committees, each such committee to consist of one or more directors of the Company, which shall have and may exercise such powers and authority (subject to the limitations specified in Section 1 of this Article IV) as the Board of

Directors may determine and specify in such resolution or resolutions, such committee or committees to have such name or names as may be determined from time to time by the Board of Directors. A majority of all the members of any such committee may fix its rules of procedure, determine its actions, and fix the time and place (whether within or without the State of Delaware) of its meetings and specify what notice thereof, if any, shall be given, unless the Board of Directors shall otherwise by resolution provide. The Board of Directors shall have the power, either with or without cause, at any time, to change the members of any such committee, to fill vacancies, and to discharge any such committee.

ARTICLE V OFFICERS

SECTION 1. Principal Officers. The principal offices of the Company may be a

Chairman of the Board and one or more

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Vice Chairmen of the Board, each of whom shall be members of the Board of Directors, and members of the Company's Corporate Staff, or successor committee then in place (the number and titles thereof to be determined by the Board of Directors). In addition, there may be such other officers, agents, and employees of the Company as may be appointed in accordance with the provisions of Section 3 of this Article V. Any two or more offices may be held by the same person.

SECTION 2. Election and Term of Office. The officers of the Company, except

such officers as may be appointed in accordance with the provisions of Section 3 of this Article V, shall be elected annually by the Board of Directors. Each officer, except such officers as may be appointed in accordance with the provisions of Section 3 of this Article V, shall hold office until his or her successor shall have been duly elected and qualified, or until his or her earlier death, resignation, removal, or disqualification.

SECTION 3. Appointed Officers. In addition to the principal officers

enumerated in Section 1 of this Article V, the Company may have such other officers, agents, and employees as the Board of Directors may deem necessary, each of whom shall hold office for such period, have such authority, and perform such duties as the Board of Directors, the Chairman of the Board, or a Vice Chairman of the Board may from time to time determine. The Board

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of Directors may delegate to any principal officer the power to appoint or remove any such other officers, agents, or employees.

SECTION 4. Removal. Any officer may be removed, either with or without

cause, by the vote of a majority of the whole Board of Directors at a special meeting called for the purpose or except in case of any officer elected by the Board of Directors, by any officer upon whom the power of removal may be conferred by the Board of Directors.

SECTION 5. Resignation. Any officer may resign at any time by giving

written notice of his or her resignation to the Board of Directors or to the Chairman of the Board, a Vice Chairman of the Board, or the Secretary. Such resignation shall take effect at the date of receipt of the notice or at any later time specified therein; and unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

SECTION 6. Vacancies. A vacancy in any office because of death,

resignation, removal, disqualification, or any other cause shall be filled for

the unexpired portion of the term in the manner prescribed in these Bylaws for regular election or appointment to such office.

SECTION 7. Chairman of the Board. The Chairman of the Board may be the

chief executive officer of the Company. The Chairman of the Board shall preside at all meetings of the Board of Directors and of the stockholders at which he or she is present.

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The Chairman of the Board shall have the general supervision of the affairs of the Company, and perform all such duties as are incident to the office or as are properly required of him or her by the Board of Directors. The Chairman of the Board shall have authority to enter into any contract or execute and deliver any instrument in the name and on behalf of the Company, when authorized by the Board of Directors, except in cases where the signing and execution thereof shall be expressly delegated by the Board of Directors or these Bylaws to some other officer, agent, or employee of the Company.

SECTION 8. Vice Chairmen of the Board. The Board of Directors may establish

the office of Vice Chairman of the Board. In the absence or disability of the Chairman of the Board, a Vice Chairman of the Board shall perform the duties and exercise the powers of the Chairman of the Board. A Vice Chairman of the Board shall have authority to enter into any contract or execute and deliver any instrument in the name and on behalf of the Company, when authorized by the Board of Directors, except in cases where the signing and execution thereof shall be expressly delegated by the Board of Directors or these Bylaws to some other officer, agent, or employee of the Company. In addition, a Vice Chairman of the Board shall have such further powers and perform such further duties as may, from time to time, be assigned to him or her by the Board of Directors or the Chairman of the Board or as may be prescribed by these Bylaws.

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SECTION 9. Presidents. The Board of Directors may establish the office of

President of a division, region, or other unit, function, or activity of the Company. A President shall have such powers and perform such duties as may, from time to time, be assigned to him or her by the Board of Directors, the Chairman of the Board, or a Vice Chairman of the Board.

SECTION 10. Vice Presidents. The Board of Directors may establish several

classifications of Vice Presidents, such as Executive Vice Presidents, Senior Vice Presidents, Regional Vice Presidents, and Divisional Vice Presidents. Each Vice President shall have such powers and perform such duties as shall, from time to time, be assigned to him or her by the Board of Directors, the Chairman of the Board, or a Vice Chairman of the Board.

SECTION 11. The Treasurer. The Treasurer shall have charge and custody of,

and be responsible for, all funds and securities of the Company, and shall deposit or cause to be deposited all such funds in the name of the Company in such banks, trust companies, and other depositories as shall be selected in accordance with the provisions of these Bylaws; shall render to the Board of Directors, whenever the Board may require him or her so to do, a report of all his or her transactions as Treasurer; and in general, shall perform all duties as may, from time to time, be assigned to him or her by the Board of Directors, the Chairman of the Board, or a Vice Chairman of the Board.

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SECTION 12. The Secretary. The Secretary shall record or cause to be

recorded in books kept for the purpose the proceedings of the meetings of the

stockholders, the Board of Directors, and all committees, if any; shall see that all notices are duly given in accordance with the provisions of these Bylaws and as required by law; shall be custodian of the seal of the Company; and in general, shall perform all duties incident to the office of Secretary and such other duties as may, from time to time, be assigned to him or her by the Board of Directors, the Chairman of the Board, or a Vice Chairman of the Board.

SECTION 13. The Controller. The Controller shall have charge of the books

and records of account of the Company; shall keep or cause to be kept, and shall be responsible for the keeping of, correct and adequate records of the assets, liabilities, business, and transactions of the Company; shall at all reasonable times exhibit his or her books and records of account to any director of the Company upon application at the office of the Company where such books and records are kept; shall be responsible for the preparation and filing of all reports and returns relating to or based upon the books and records of the Company kept by him or her or under his or her direction; and in general, shall perform all duties incident to the office of Controller and such other duties as may, from time to time, be assigned to him or her by the Board of Directors, the Chairman of the Board, or a Vice Chairman of the Board.

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ARTICLE VI
CONTRACTS, LOANS, CHECKS, DRAFTS, BANK ACCOUNTS, ETC.

SECTION 1. Execution of Contracts. The Board of Directors, except as

otherwise provided in these Bylaws, may authorize any officer or officers or other person or persons to enter into any contract or execute and deliver any instrument in the name and on behalf of the Company, and such authority may be general or confined to specific instances, and unless so authorized by the Board of Directors or by the provisions of these Bylaws, no officer or other person shall have any power or authority to bind the Company by any contract or engagement or to pledge its credit or to render it liable peculiarly for any purpose or to any amount.

SECTION 2. Loans. No loan shall be contracted on behalf of the Company, and

no negotiable papers shall be issued in its name, except by such officer or officers or other person or persons as may be designated by the Board of Directors from time to time. If and to the extent authorized by the Board of Directors, the power to contract loans or issue negotiable papers may be delegated by any such officer or officers or other person or persons.

SECTION 3. Checks, Drafts, etc. All checks, drafts, bills of exchange, and

other orders for the payment of money, letters of credit, acceptances, obligations, notes, and other evidences of

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indebtedness, bills of lading, warehouse receipts, and insurance certificates of the Company shall be signed or endorsed by such officer or officers or other person or persons as may be designated by the Board of Directors from time to time. If and to the extent authorized by the Board of Directors, the power to sign or endorse any such instrument may be delegated by any such officer or officers or other person or persons.

SECTION 4. Bank Accounts. The Board of Directors may from time to time

authorize the opening and maintenance of general and special bank and custodial accounts with such banks, trust companies, and other depositories as it may select. Rules, regulations, and agreements applicable to such accounts may be made, and changed from time to time, by the Board of Directors, including, but without limitation, rules, regulations, and agreements with respect to the use of facsimile and printed signatures. Any of such powers of the Board of Directors with respect to bank and custodial accounts may be delegated by the Board of Directors to any officer or officers or other person or persons as may

be designated by the Board of Directors, and if and to the extent authorized by the Board of Directors, any such power may be further delegated by any such officer or officers or other person or persons.

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ARTICLE VII BOOKS AND RECORDS

SECTION 1. Location. The books and records of the Company may be kept at

such place or places within or without the State of Delaware as the Board of Directors or the respective officers in charge thereof may from time to time determine. The stock record books shall be kept by such officer or agent as shall be designated by the Board of Directors.

SECTION 2. Addresses of Stockholders. Notices of meetings and all other

corporate notices may be delivered personally or mailed to each stockholder at his or her address as it appears on the records of the Company.

SECTION 3. Fixing Date for Determination of Stockholders of Record. In

order that the Company may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any other change, conversion, or exchange of stock or for the purpose of any other lawful action, the Board of Directors may fix, in advance, a record date, which shall not be more than 60 nor less than 10 days before the date of such meeting, nor more than 60 days prior to any other action. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders

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shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

ARTICLE VIII SHARES OF STOCK AND THEIR TRANSFER

SECTION 1. Certificates of Stock. Every holder of stock of the Company

shall be entitled to have a certificate in such form as the Board of Directors shall prescribe certifying the number of shares owned by him or her in the Company. Each such certificate shall be signed by, or in the name of the Company by, the Chairman of the Board, a Vice Chairman of the Board, a President, or a Vice President and the Treasurer or an Assistant Treasurer or the Secretary or an Assistant Secretary of the Company. Any or all of the signatures on the certificate may be facsimile. In case any officer, transfer agent, or registrar who has signed, or whose facsimile signature has been placed upon, a certificate shall have ceased to be such officer, transfer agent, or registrar before such certificate is issued, the certificate may, nevertheless, be issued by the Company with the same effect as if such person were such officer, transfer agent, or registrar at the date of issue.

SECTION 2. Record, etc. A record shall be kept of the name of the person,

firm, or corporation owning the stock represented by each certificate of stock of the Company issued, the number of shares represented by each such certificate, and the date thereof,

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and in the case of cancellation, the date of cancellation. The person in whose name shares of stock stand on the books of the Company shall be deemed the owner

of record thereof for all purposes as regards the Company.

SECTION 3. Transfer of Stock. Transfers of shares of the stock of the

Company shall be made only on the books of the Company by the owner of record thereof, or by his or her attorney thereunto authorized by power of attorney duly executed and filed with such officer or agent as shall be designated by the Board of Directors or with the transfer agent of the Company, and on the surrender of the certificate or certificates for such shares properly endorsed and the payment of all taxes thereon.

ARTICLE IX
DIVIDENDS AND RESERVES

The Board of Directors may, from time to time, determine whether any, and if any, what part, of the net profits of the Company or of its surplus, available therefor pursuant to law and to the certificate of incorporation, shall be declared as dividends on the stock of the Company. The Board of Directors may, in its discretion, set apart out of any of such net profits or surplus a reserve or reserves for any proper purpose and may abolish any such reserve.

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ARTICLE X
INDEMNIFICATION OF DIRECTORS, OFFICERS, EMPLOYEES, AND AGENTS

The Company may indemnify, in accordance with and to the full extent permitted by the laws of the State of Delaware as in effect at the time of the adoption of this Article X or as such laws may be amended from time to time, and shall so indemnify to the full extent required by such laws, any person (and the heirs and legal representatives of such person) made or threatened to be made a party to any threatened, pending, or completed action, suit, or proceeding, whether civil, criminal, administrative, or investigative, by reason of the fact that such person is or was a director, officer, employee, or agent of the Company or any constituent corporation absorbed in a consolidation or merger, or serves or served as such with another corporation, partnership, joint venture, trust, or other enterprise at the request of the Company or any such constituent corporation. Notwithstanding any other provision of this Article X or the laws of the State of Delaware to the contrary, no such person shall be entitled to indemnification or the advancement of expenses pursuant to this Article X with respect to any action, suit, or proceeding, or part thereof, brought or made by such person against the Company, unless such indemnification or advancement of expenses (i) is due to such person pursuant to the specific provisions of any agreement in writing between such person and the Company approved by the Company's Board of Directors or (ii) has been approved in

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writing in advance of the commencement of such action, suit, or proceeding, or part thereof, by or at the direction of the Company's Board of Directors. Any indemnification or advancement of expenses pursuant to this Article X shall only be made in the specific case by a separate determination made (i) by a majority vote of the directors who are not parties to such action, suit, or proceeding, even though less than a quorum, or (ii) if there are no such directors, or if such directors so direct, by independent legal counsel in a written opinion, or (iii) by the Company's stockholders, as to entitlement to advancement of expenses and/or indemnification, as the case may be.

ARTICLE XI
RATIFICATION

Any transaction, questioned in any stockholders' derivative suit on the ground of lack of authority, defective or irregular execution, adverse interest of director, officer, or stockholder, non-disclosure, miscomputation, or the application of improper principles or practices of accounting, may be ratified, before or after judgment, by the Board of Directors or by the stockholders in case less than a quorum of directors are qualified, and if so ratified, shall

have the same force and effect as if the questioned transaction had been originally duly authorized. Such ratification shall be binding upon the Company and its stockholders and shall constitute a bar to any claim or execution of any judgment in respect of such questioned transaction.

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ARTICLE XII
SEAL

The Board of Directors shall provide a corporate seal, which shall be in the form of a circle and shall bear the name of the Company and the words and figures "Corporate Seal 1924 Delaware".

ARTICLE XIII
FISCAL YEAR

The fiscal year of the Company shall end at the close of business on the Saturday closest to January 31 and shall, in each case, begin at the opening of business on the day next succeeding the last day of the preceding fiscal year.

ARTICLE XIV
WAIVER OF NOTICE

Whenever notice is required to be given under any provision of these Bylaws, the certificate of incorporation, or the laws of the State of Delaware, a written waiver thereof, whether in the form of a writing signed by, or a telegram, cable, radiogram, telephone facsimile, or other appropriate written communication from, the person entitled to notice and whether before or after the time stated therein, shall be deemed equivalent to notice. Attendance of a person at a meeting shall constitute a waiver of notice of the meeting, except when the person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not

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lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any meeting of the stockholders or directors or a committee of directors need be specified in any written waiver of notice.

ARTICLE XV
EMERGENCY BYLAWS

SECTION 1. General. Notwithstanding any other provisions of the certificate

of incorporation and these Bylaws, the emergency bylaws (hereinafter called Emergency Bylaws) provided in this Article XV shall be operative during any emergency resulting from an attack on the United States or on any locality in which the Company conducts its business or customarily holds meetings of its Board of Directors or its stockholders, or during any nuclear or atomic disaster, or during the existence of any catastrophe, or other similar emergency condition (any such condition being hereinafter called an Emergency), as a result of which a quorum of the Board of Directors or the Executive Committee cannot readily be convened for action. To the extent not inconsistent with these Emergency Bylaws, the Bylaws of the Company shall remain in effect during any Emergency. Upon termination of the Emergency, these Emergency Bylaws shall cease to be operative unless and until another Emergency shall occur.

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SECTION 2. Meetings and Notice of Meetings. During any Emergency any

meeting of the Board of Directors or of the Executive Committee may be called by any director or officer of the Company. Notice of the meeting shall be given by the person calling the meeting, shall state the time and place of the meeting,

and shall be required to be given only to such of the directors or members of the Executive Committee, as the case may be, and the persons referred to in Section 3 of this Article XV as it may be feasible to reach at the time and by any means as may then be feasible at the time.

SECTION 3. Quorum, Emergency Directors, and Manner of Acting. The directors

and members of the Executive Committee, as the case may be, in attendance at a meeting pursuant to Section 2 of this Article XV, which in no case shall be less than two, shall constitute a quorum of the Board of Directors or the Executive Committee, as the case may be, and they may take any action at the meeting, by majority vote, as they shall, in their sole discretion, deem to be in the best interests of the Company. Notwithstanding the foregoing, if the number of directors or members of the Executive Committee, as the case may be, available to constitute a quorum at any such meeting, shall be less than two, additional directors, or additional members of the Executive Committee, as the case may be, in whatever number shall be necessary to constitute a Board or Executive Committee, as the case may be, of at least two members, shall be deemed selected

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automatically from the officers or other persons designated on a list approved by the Board of Directors before the Emergency, all in such order of priority and subject to such conditions and for such period or periods as may be provided in the resolution approving the list. The Board of Directors or Executive Committee, as the case may be, as so constituted shall continue until the termination of the Emergency. The Board of Directors, either before or during any Emergency, may provide, and from time to time modify, lines of succession in the event that during such Emergency any or all officers of the Company shall for any reason be rendered incapable of discharging their duties. Any additional director or additional member of the Executive Committee, as the case may be, may be removed, either with or without cause, by a majority vote of the remaining directors or members of the Executive Committee, as the case may be, then in office.

SECTION 4. Offices; Places of Meeting. The Board of Directors, either

before or during any Emergency, may, effective during the Emergency, change the head office of the Company or designate several alternative head offices or regional offices of the Company or authorize the officers to do so.

SECTION 5. Liability during an Emergency. No officer, director, or employee

shall be personally liable for acting in accordance with these Emergency Bylaws, except for willful misconduct.

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ARTICLE XVI
AMENDMENTS

Subject to the provisions of the certificate of incorporation, all Bylaws of the Company shall be subject to alteration, amendment, or repeal, in whole or in part, and new bylaws not inconsistent with the laws of the State of Delaware or any provision of the certificate of incorporation may be made, either by the affirmative vote of a majority of the whole Board of Directors at any regular or special meeting of the Board, or by the affirmative vote of the holders of record of a majority of the issued and outstanding stock of the Company entitled to vote in respect thereof, given at an annual meeting or at any special meeting at which a quorum shall be present, provided that in each case notice of the proposed alteration, amendment, or repeal or the proposed new bylaws be included in the notice of the meeting of the Board or the stockholders, or the form of consent thereof, as the case may be.

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Exhibit 31.1

CERTIFICATION

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I, Myron E. Ullman, III, 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (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: June 7, 2006.

/s/ Myron E. Ullman, III

Myron E. Ullman, III
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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (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: June 7, 2006.

/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 April 29, 2006 (the "Report"), I, Myron E. Ullman, III, 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 7th day of June 2006.

/s/ Myron E. Ullman, III

Myron E. Ullman, III
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 April 29, 2006 (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 7th day of June 2006.

/s/ Robert B. Cavanaugh

Robert B. Cavanaugh
Executive Vice President and
Chief Financial Officer