20) Discontinued Operations

Lojas Renner S.A.

In July 2005, the Company sold its interest in Lojas Renner S. A. (Renner), a Brazilian department store chain, and received $260 million of net proceeds, that were used for common stock repurchases. This transaction resulted in a cumulative pre-tax gain of $26 million, $1 million after-tax, including an $8 million credit related to taxes that was recorded in 2006. The relatively high tax cost was 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

During 2007, the Company recorded an after-tax credit of $6 million related to the Eckerd discontinued operations as a result of management's ongoing review and true-up of the reserves established at the closing of the Eckerd sale in 2004. Through 2007, the cumulative loss on the sale was $705 million pre-tax, or $1,320 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. Net cash proceeds of $3.5 billion from the sale were used for common stock repurchases and debt reduction, which are more fully discussed in Notes 2 and 10.

The more significant remaining reserve related to the Eckerd sale is for estimated environmental exposures. Management believes that the overall reserves, as adjusted, are adequate as of February 2, 2008 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 included in investing cash flows.

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 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. See additional discussion of environmental reserves in Note 19.

JCP assumed sponsorship of the Pension Plan for Former Drugstore Associates and various other nonqualified retirement plans and programs. JCP 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. The Pension Plan for Former Drugstore Associates was settled and plan assets were distributed by the purchase of an annuity contract with a third party insurance company effective in June 2006.

Discontinued operations for 2006 and 2005 also included combined after-tax credits of $7 million and $8 million, respectively, to adjust the loss on the sale of the six Mexico department stores, which were sold in 2003, and the sale of J. C. Penney Direct Marketing Services, Inc.'s (DMS's) assets, which were sold in 2001. No such adjustments were recorded in 2007.