



# 2009: A Year of Stepping Up

Stepping up our presence...

our service...our innovation...our commitment

We are laying the foundation for **growing** market share and profitable sales.

To our customers, our associates, and our stockholders, our vision is clear:

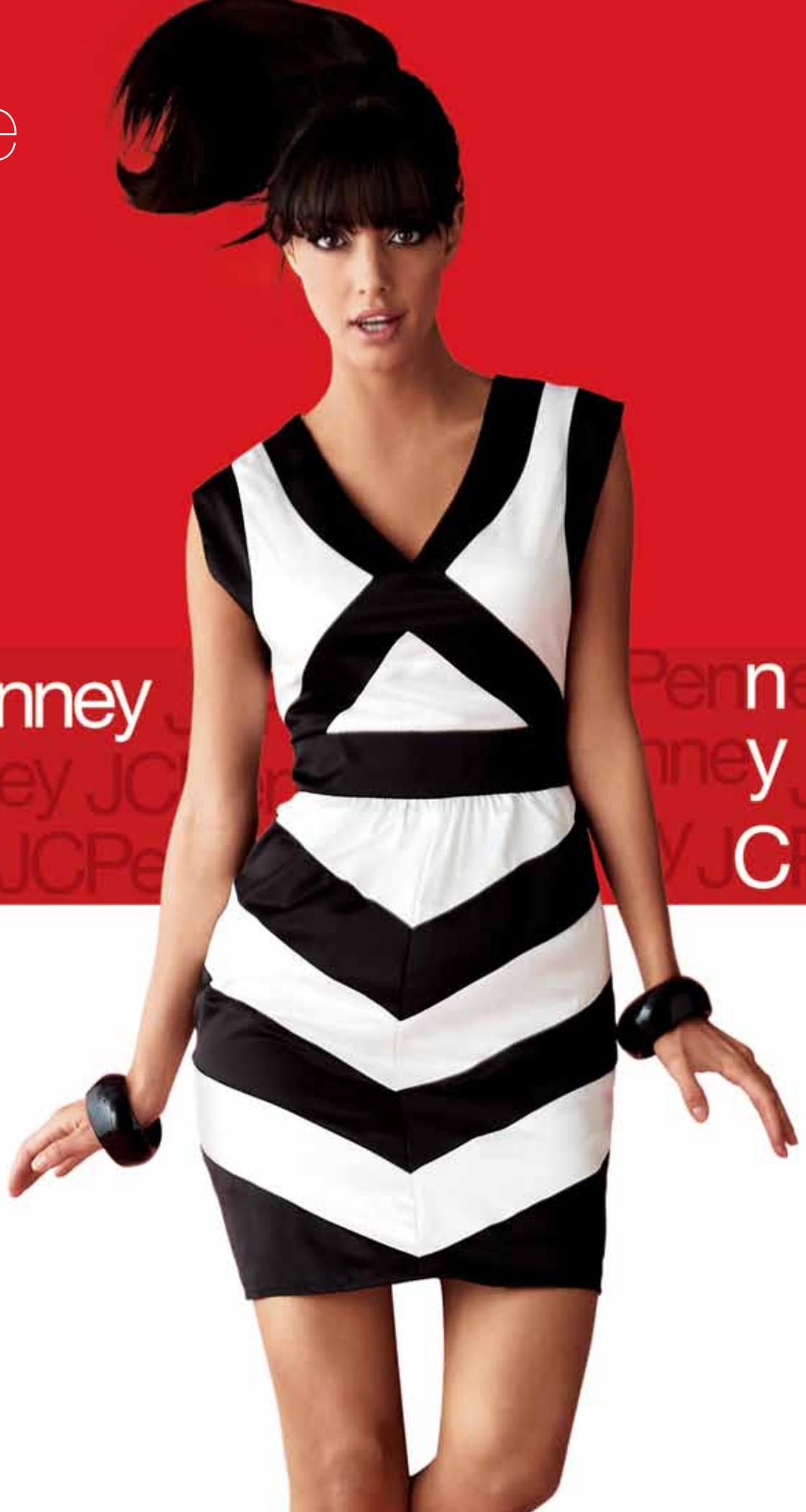
To be America's destination for discovering great styles at compelling prices.



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# Our Style



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## Dear JCPenney Stockholder:

In a difficult year for many American families, JCPenney did what we do best — provided the quality merchandise we are known for at prices that make sense for our customers' pressured budgets, and “stepped up” our style to enable them to be more fashionable than ever.

At the same time, we continued to execute our Bridge Plan, which focused on tightly managing all aspects of our business in order to protect our profitability and put a solid operational and financial foundation in place to enable a return to a growth trajectory. This included planning our inventory for a lower level of sales, discontinuing several promotions that were not productive for us, and reducing capital expenditures and operating costs across the Company.

I am pleased to report that we achieved what we set out to do when I wrote to you last year. Despite the worst economic downturn our nation has seen in 80 years, we increased our gross margin by 200 basis points to 39.4% of sales — an historic peak for us. Our financial strength is a considerable competitive advantage, allowing us to invest in key areas of our business at a time when others are cutting back. Moreover, we maintained our 2009 annual cash dividend at \$0.80 per share for the benefit of our stockholders and rewarded over 100,000 Associates with a special bonus check for their meaningful contribution to our overall customer satisfaction scores, and ultimately, our profitability.

As a result, we believe we are well-positioned to focus our attention in 2010 on delivering top-line sales growth, as we begin to implement our new five year Long-Range Plan.

## Stepping Up Our Style and Enhancing the Customer Experience

Over the past year, we introduced new, exclusive brands across several merchandise categories. These new brands are off to a promising start. They include Allen B.® by Allen Schwartz and I♥Ronson® by Charlotte Ronson in Women's apparel; Olsenboye™ by Ashley Olsen and Mary-Kate Olsen in Juniors' apparel; JOE™ Joseph Abboud and Irreverent™ in Men's apparel; and Cindy Crawford Style™ in Home. We also remain a “headquarters” for top national brands such as Levi's®, Carter's® and Dockers®. We continue to make strides in maximizing the potential of our leading private brands, such as The Original Arizona Jean Company®, Worthington® and a.n.a®, which deliver significantly higher gross margins than national or exclusive brands.

All of these brands are brought to life at JCPenney by our exceptional merchandising organization. To ensure we continue to tap our deep well of talent, we recently refined

to our stockholders



Mike Ullman addressing Associates at the Manhattan store grand opening

our merchandising leadership structure, aligning our organization under two seasoned JCPenney executives. Together, they and their teams will continue to maximize our current brands and accelerate our style authority, ensuring that we are offering the right assortments and quantities on a market-by-market basis.

We support the work of our merchandising team by continuing to enhance the technology platform behind every aspect of our inventory flow. In 2009, this included rolling out Door to Floor across our organization to improve the process of stocking our stores in a way that drives productivity as well as higher customer service levels. To capitalize on the refinements we made in our merchandising structure, we are continually improving the customer experience. In 2009, this included:

- Streamlining our marketing strategies at every customer touch point to highlight our “stepped up” style and enterprise-wide merchandise offering. We are dedicated to building on this success, as well as increasing membership in our JCP Rewards loyalty program, which has grown to over 4 million customers — who we know spend more and shop more often than our average customer.
- Investing in our digital platform. We improved the functionality of jcp.com, allowing customers to find the right styles more easily through innovative tools, such as our online runway videos. Customers responded well to these enhancements, as reflected in the positive sales trend for jcp.com. Additionally, we invested in social media, mobile applications, and our FindMore™ smart fixtures in stores. Moving forward, we will continue to invest in digital initiatives to capture market share.
- Remodeling or refurbishing approximately 100 stores, as part of our ongoing efforts to make the customer shopping experience more exciting. This included opening 64 new Sephora inside JCPenney locations; we plan for 75 more in 2010, bringing the total to 230.
- Opening 17 new stores in attractive markets, where we are competing aggressively. This included the July 2009 opening of our first-ever store in Manhattan, where JCPenney has proven popular among residents and tourists, bringing good visibility to JCPenney and our exclusive brands.

“Our vision is to be ‘America’s shopping destination for discovering great styles at compelling prices...’ This means consistently reinforcing our style authority and affordability and building a sense of discovery for our customers every time they shop with us.” Mike Ullman

- Providing ongoing CustomerFIRST training and leadership development opportunities for our Associates. The result is that our Associate Engagement scores continue to increase, which translates into ongoing gains in our customer service scores. We are proud that in 2009, for the second year in a row, JCPenney ranked No. 1 in customer service among department stores in the American Express/National Retail Federation Foundation Customers’ Choice survey.
- Creating a new clearance strategy called “Red Zone Clearance,” which more clearly communicates the true “out the door” price to simplify the purchase decision for our customers.

We were able to accomplish all of this even though we reduced capital expenditures to \$600 million in 2009, versus approximately \$1 billion in the prior year. We are planning for capital expenditures to be \$500 million in 2010.

### Exciting New Brands in 2010

Taken together, we have a strong platform from which to achieve our top goal in 2010 — restoring comparable store sales growth. Our strategies to do this include demonstrating that JCPenney is a style destination and focusing on increasing our market share. We expect to accomplish this by adding exceptional new brands that continue to set us apart, including:

- Introducing Cindy Crawford’s newest collaboration with us, One Kiss™ by Cindy Crawford®, in April. This new brand reflects how we are answering the growing demand for fashionable fine jewelry that can be worn every day.
- Launching Liz Claiborne®, one of the country’s most recognized women’s brands and most popular among our core customers, for which we will be the exclusive department store retailer, beginning this fall. We are capitalizing on this by expanding the brand into a full lifestyle collection across approximately 25 categories, including women’s and men’s apparel, home and accessories.
- Focusing on making JCPenney a fast fashion destination with the launch of MNG by Mango®. This brand, which will be exclusive to JCPenney beginning this fall, is known for European runway fashion at affordable prices, and will be the centerpiece of our women’s contemporary merchandise offering.

### Off to a Running Start on Our New Long-Range Plan for 2010-2014

Five years ago we introduced a Long-Range Plan for growth. Given the circumstances of the last two years, putting this Plan on hold and creating a Bridge Plan was the right course for us and is reflected in the strong position our Company is in today. We ended 2009 with \$3 billion of cash on our balance sheet, and we will leverage this financial strength as we launch our new 2010-2014 Long-Range Plan for growth.

Our vision is to be “America’s shopping destination for discovering great styles at compelling prices” by building the satisfaction, loyalty and shopping frequency of our existing customers and growing our market share, especially among younger customers. This means consistently reinforcing our style authority and affordability and building a sense of discovery for our customers every time they shop with us.

Critical to our success is having the best team of Associates in retail. To this end, we are dedicated to an engaged culture focused on innovation and teamwork. Together, our team is committed to establishing JCPenney as the growth leader in our industry, increasing our sales and market share, maintaining our gross margin to maximize earnings potential, and delivering enhanced value for our stockholders.

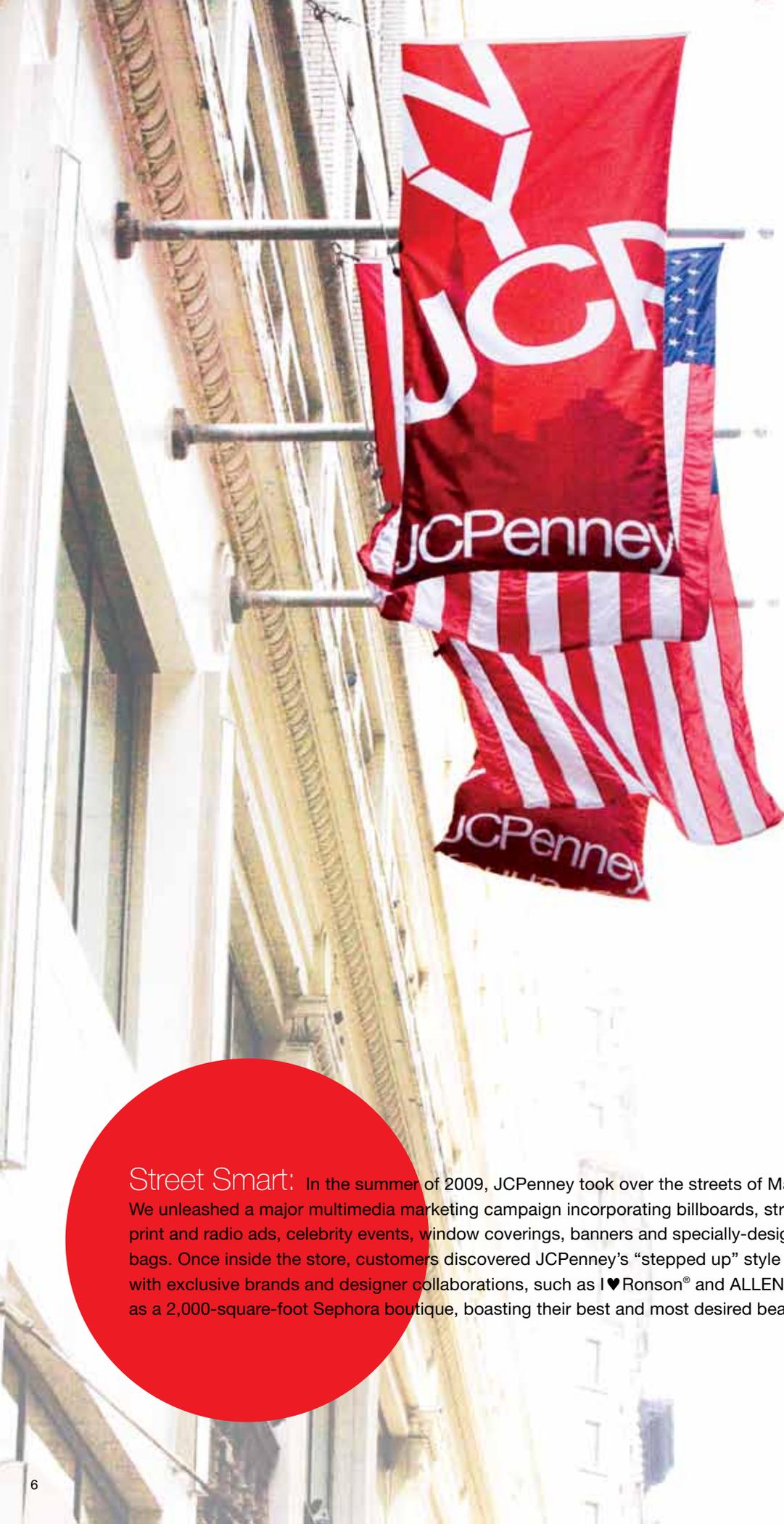
As we do this, we benefit from the wise counsel of our Board of Directors. We welcome the newest addition to our Board, Geraldine Laybourne, who founded Oxygen Media, a pioneering network that produces content aimed at younger women.

My deepest thanks go to our Associates for their unwavering focus on teamwork and showing our customers that we know “Every Day Matters®” at JCPenney; our Board for their contributions to planning our successful future; and our stockholders for your continued investment... we are all committed to delivering for you.

Myron E. (Mike) Ullman, III



Chairman and Chief Executive Officer  
April 2010



**Street Smart:** In the summer of 2009, JCPenney took over the streets of Manhattan. We unleashed a major multimedia marketing campaign incorporating billboards, street flags, print and radio ads, celebrity events, window coverings, banners and specially-designed shopping bags. Once inside the store, customers discovered JCPenney's "stepped up" style showcased with exclusive brands and designer collaborations, such as I♥Ronson® and ALLEN B.®, as well as a 2,000-square-foot Sephora boutique, boasting their best and most desired beauty products.

Stepping Up Our Presence:

# JCPenney Takes Manhattan

Last summer, JCPenney celebrated an historic move when it opened its doors at 33rd St. and 6th Ave, in the heart of America's fashion capital, New York City. This 153,000 square-foot flagship store is a unique showcase for great style and quality, in one of America's busiest shopping areas. It serves an enormous customer base that includes local residents, commuters and tourists, and is conveniently accessible from street level and two of New York City's busiest public transportation terminals — where more than 250,000 people pass through daily.



We've been  
around a long  
time, yet our style  
is impeccable.

Kind of like you,  
Manhattan.

33rd St. and 6th Ave.

Inside the Manhattan store customers are greeted with a modern look and easy-to-shop floor plan. The partially open, floating ceiling system provides visual height, as well as an additional modern design element that gives the store a unique feel. We've incorporated many exciting features that create a distinct shopping experience — like a new electronic queuing system, which directs customers to available registers and informs them of their wait times, and nearly one hundred state-of-the-art registers, all of which provide a gateway to [jcp.com](http://jcp.com) and its extended selection of merchandise.

Chosen from the best and the brightest of over 15,000 applicants, the Manhattan store team of approximately 550 Associates is one of the largest of any JCPenney store. These Associates are trained in JCPenney's CustomerFIRST standards, which empower them to make customers their No. 1 priority.



Stepping Up Our Style:

# New Brands, New Collaborations.

A trusted retailer for over 100 years, JCPenney has long had a reputation for exceptional quality and value — now we've stepped up our style, too. In 2009, we introduced exciting national, private and exclusive brands that took the style of our merchandise to new levels. We showcased our new styles through engaging marketing initiatives, delivering a clear, consistent message that we offer a compelling and rewarding shopping experience wherever customers shop with us — [jcp.com](http://jcp.com), stores or through our specialty catalogs.



## Cindy Crawford Style™

Our new brand of home furnishings and accessories by fashion and style expert, Cindy Crawford, launched in September 2009. Focused on providing a clean, fresh approach to traditional style with beautiful designs and stylish accents, the brand helps customers create a home that reflects their personality and lifestyle — all at an affordable price. In February 2010 we announced her fine jewelry line, One Kiss™ by Cindy Crawford®, a stunning selection of timeless pieces for the classic woman, which will debut in April 2010, just in time for Mother's Day.

## Brand New

In an effort to continually refresh our merchandise offering and appeal to a variety of customers, we had several private and exclusive brand launches, as well as an exciting relaunch of J. Ferrar.

**She Said™** — Our fashion forward brand of contemporary apparel and “it” pieces, ideal for young professionals.

**Allen B.®** — Designer Allen Schwartz takes today’s trends and turns them into stylish, affordable silhouettes.

**I♥Ronson®** — Vintage feminine pieces are given an attitude in this line created by innovative designer, Charlotte Ronson.

**Olsenboye™** — Designers Ashley Olsen and Mary-Kate Olsen’s line of fun, spirited and edgy styles for juniors.

**J. Ferrar™** — Our modern, versatile brand for men, with a more streamlined fit, encourages freedom of expression.



She Said and J. Ferrar

## New Alliances

JCPenney proudly announced two exciting new collaborations. Beginning fall 2010, we will be the exclusive department store destination for all Liz Claiborne® and Claiborne branded merchandise in the U.S. and Puerto Rico. With this agreement, JCPenney will be able to bring a greatly expanded collection of Liz Claiborne and Claiborne merchandise to our customers in a way that reflects the value and affordability they expect from us.

Mango®, world-renowned leaders in design and fast fashion, announced plans for JCPenney to become their exclusive MNG by Mango® department store retailer in the U.S. Known for rapidly delivering European runway fashion at affordable prices, MNG by Mango will soon be the centerpiece of JCPenney’s contemporary assortment.

**LIZ CLAIBORNE**

**M N G**  
by MANGO

Stepping Up Our Style:

# Delivering New Looks in New Ways

We focused on streamlining our marketing efforts to highlight our “stepped up” style no matter where our customers shop with us — in stores, on [jcp.com](http://jcp.com) or through our catalogs. To further convey the spectrum of style JCPenney offers our broad range of customers, we explored new ways to speak to them, including social media, mobile, FindMore in our stores and innovative enhancements to [jcp.com](http://jcp.com).



## Style: The Guys Have It

The number of men seeking affordable, high-quality brands and merchandise continues to grow. To spread the word that JCPenney is the destination for style, we looked for new ways to reach this important customer. We created engaging online experiences for the [jcp.com](http://jcp.com) shopper, explored increasingly important technology like our iPhone application, and developed a fresh men's style look book, Matters of Style.

And for the sports fan, at [jcp.com](http://jcp.com), we offered our best-ever selection of quality sports apparel, via our relationship with Dreams, Inc. Our participation in the ESPN® Radio “Man Up” Sweepstakes and Van Heusen® Pro Football Hall of Fame® Fan's Choice at [jcp.com/fans](http://jcp.com/fans) were also big hits.



## findmore™ at jcp.com

### When Shopping Channels Unite

JCPenney is focused on a highly integrated strategy that brings together the Company's online and offline stores. We have started to unite these two worlds with the launch of digital in-store customer experiences, such as the FindMore smart fixture. Using its touchscreen, shoppers can view jcp.com's vast assortment of merchandise, print out receipts for items selected online, and then purchase them at an in-store register. Enhancements to the program for 2010 include putting FindMore fixtures in more stores and adding the option to purchase directly from them.

### Step Ahead Style

The Little Red Book was created to showcase our renowned designers, and the fact that JCPenney offers the latest trends and hottest women's styles. At jcp.com, the Little Red Book interactive experience helps our customers find "it" items, styling options and ideas for fresh looks. To complement this, we launched an interactive, virtual runway show on jcp.com, where customers have the best seat in the house to see that our style is a step ahead.

### Remix Your Style

This new online feature lets shoppers mix contemporary styles to create head-to-toe ensembles. They can share the looks they have created with friends, post their favorites, and easily purchase the items they love.



facebook



### Stepping Up Our Connections

Technology constantly delivers new opportunities to reach our customers. During the year, we continued to invest in our digital platform, which includes jcp.com, social media, mobile and our FindMore fixtures in stores. We also launched the JCPenney Weekly Deals iPhone application to allow users to browse sale items, create shopping lists and find stores, building on our "Know Before You Go" initiative. Innovations like these, along with the use of social networking sites such as Twitter and Facebook, keep us conveniently connected to our customers.



## Young Men's and Boys' Launches

In a move to capture more of the Young Men's and Boys' markets, we introduced three fresh skate and surf-inspired brands — RS by Sheckler™, Third Rail™ a Zoo York Production, and Rusty® surf apparel, and extended our Decree® brand into Young Men's.



Renewed focus on our ARIZONA power brand played a key role in our 2009 Back-to-School success



Stepping Up Our Popularity:

# Schooled in Style™

Our “Schooled in Style: Smart Looks for Less” launch was an innovative, integrated marketing campaign for the 2009 Back-to-School season. Combining digital, social, mobile and traditional media with unique special events and promotions, the campaign reinforced our position as the national Back-to-School headquarters, by showing kids and teens our great styles and brands at prices moms love.



## Online Denim Experience

An exciting part of the heavily-trafficked JCP Teen webpage was an interactive denim experience that featured models wearing the latest trends and turning 360 degrees on cue. Through the site, they were also able to easily find and shop for denim categorized by fit and wash.



## Fast Fashion *City Streets*

City Streets, our fast fashion private brand for Juniors, was a highlight of the 2009 Back-to-School season. With its wide array of skinny, brightly-colored denim, teens discovered great style at incredible prices.

**jcp**teen

## Networking Our Style To Teens

Launched during Back-to-School, [jcp.com/teen](http://jcp.com/teen) allowed teens to connect with each other, create looks and see style come alive through a digital runway. It also linked directly to the JCPenney Facebook page, where we were given an opportunity to see, in real time, how teens responded to JCPenney. This ongoing feedback helps us build invaluable, long-term relationships with some of our most important customers.

Stepping Up Our Stores:

# Focusing on the Customer Experience

Store environment plays a crucial role in the relationship we maintain with our customers, as well as in attracting new shoppers. From broad, immediate visual appeal to the clarity and excitement of pricing and promotions, we are dedicated to creating an enjoyable store experience that compels customers to keep coming back for more JCPenney style.



## Pricing Clarity

Easy-to-understand pricing plays an integral role in ensuring that our customers have an exceptional shopping experience. We streamlined our pricing visuals and eliminated the need for shoppers to “do the math” involved with layered discounts and percent-off promotions. Instead, we clearly communicated the true “out the door” price, and simplified the customer’s purchase decision.

## Store Make-Overs

Bright, beautiful presentation is the perfect complement to our merchandise and style. In 2009, we made great improvements and upgrades to approximately 100 stores. Paying attention to details in the areas customers appreciate most, such as great lighting and plenty of clean, updated fitting rooms, is one of the best ways to enhance their shopping experience. Decluttering and improving the shopper’s space allows them to focus on discovering our great styles at the prices they love.





## The Beauty of Sephora

Since introducing Sephora inside JCPenney (SiJCP) in 2006, JCPenney has become a major presence in the beauty business. Our SiJCP shops carry the top brands in makeup, skincare, fragrances and accessory products, and are staffed with beauty consultants trained in the “Science of Sephora” education program. These shops have created excitement among our loyal customers and have attracted new customers, including younger, more affluent shoppers,

many of whom we have converted to a new generation of loyal JCPenney customers. The success of this concept is evident in the fact that SiJCP shops have substantially higher sales per square foot than our overall store average. In 2009, we opened 64 new Sephora shops, bringing the total to 155, with 75 new shops planned for 2010.



Stepping Up Our Efficiencies:

# Poised For Growth

In 2009, we refined our technology platform that supports every aspect of our merchandise operations, including the planning and allocation system that our Associates use to flow inventory to our stores. These refinements allowed us to drive our sales profitability by controlling our inventory through smaller, more frequent merchandise deliveries. This enabled us to roll out across the entire organization our new process for receiving and setting merchandise, Door to Floor. The process allows stores to plan, receive and execute merchandise sets while improving overall team productivity. Our industry-leading tools and talent are a competitive advantage for JCPenney.





## Inventory Flow

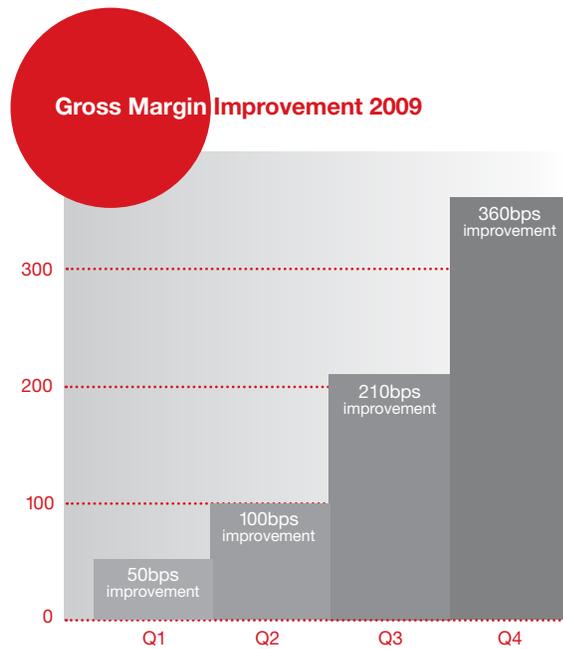
During 2009, our Associates focused on delivering the right merchandise, to the right stores, at the right time, and in the right amount. This lean inventory strategy allowed us to achieve our goal of selling more merchandise at regular and promotional prices, and have less clearance than in previous years.

## Gross Margin Improvement

Taken together, lean inventory levels, merchandise flow expertise, disciplined pricing, and a strategic promotional calendar resulted in record gross margins in 2009. We planned it that way — and we delivered.

## Door to Floor

Technology, efficiency and execution make up the Door to Floor process. It enables stores to know what merchandise will be delivered up to 48 hours in advance, allowing for optimal planning and preparation to move the merchandise from the door of the truck to the selling floor. This enables our store Associates to spend more time taking care of our customers.



Our new clearance strategy, developed in 2009 and launched in 2010, is designed to optimize profit while providing our customers with clear, easy to understand discount offers throughout the year. The enterprise-wide program, which instantly communicates strong value through bold signage, ensures clearance goods are displayed together, organized by discount level. Most important for our customers, all clearance ticketing reflects the price they actually pay — no calculations necessary.

our greatest strength



## Retail's Most Engaged Associates

Engaged Associates feel valued and are inspired to put their customers first. We understand they are the key to driving our business. Our Associates treat each customer visit as an interaction — not a transaction. This creates shopping experiences that are more likely to generate return visits and cultivate loyal relationships with our customers.

In July 2009, over 130,000 Associates — or 93% of our workforce — took part in JCPenney's annual WINNING TOGETHER™ Associate Engagement survey. Not only is participation in the survey increasing each year, but so is the level of our Associates' engagement. In fact, this year our overall Engagement score of 80% was the highest in Company history, and a 350 basis point improvement over 2008. This impressive score puts JCPenney Associate engagement in the top quartile of U.S. companies. We know this plays an integral role in our ability to deliver CustomerFIRST service each and every day — one of the most important factors in maintaining and growing our customer base, and our market share.

## An Inclusive Culture

We deeply appreciate the contributions that diverse points of view bring to our business as we establish JCPenney as a style authority and a growth leader in retail. Our commitment to cultivating an inclusive and diverse workforce earned us a spot on the 2010 DiversityInc Top 50 Companies for Diversity. Additionally, the contributions and perspectives provided by our Associate Resource Teams (ARTs) are invaluable in advancing the Company's cultural and social understanding through heritage events and specialized training. The addition of two new ARTs this year include START, an organization dedicated to volunteerism, and ALOUD, a resource group representing individuals with disabilities.



## Rewarding Customer Loyalty

Launched in August 2008, JCP Rewards has attracted over 4 million members. The program allows customers to earn \$10 reward certificates and receive members-only benefits, such as invitations to special shopping events, contests and more. In 2009, highlights included ticket giveaways and tie-ins to the Rascal Flatts American Living® Unstoppable Tour presented by JCPenney. The ability to recognize our best customers and reward them for their loyalty to JCPenney is a true competitive advantage.

Stepping Up Our Service:

# Putting People First

In 2009, we continued to invest in our people — our greatest strength — by providing invaluable training and leadership development. We find that our highly engaged Associates make a meaningful difference in how customers feel about shopping at JCPenney. We also refined and expanded our CustomerFIRST program, which gives Associates the tools and instruction needed to serve our customers to their highest satisfaction. To recognize their efforts, in 2009 we rewarded over 100,000 Associates with a special bonus for their contributions to our overall customer satisfaction scores, and ultimately, our profitability.



## Voted #1 in Customer Service

For the second year in a row, JCPenney ranked No. 1 among department store retailers in the American Express/National Retail Federation Foundation Customers' Choice survey. Delivering the best in customer service underscores the tremendous efforts made by our Associates through JCPenney's CustomerFIRST initiative and its purpose of creating highly satisfied customers.



Stepping Up Our Commitment:

# Responsible Leadership

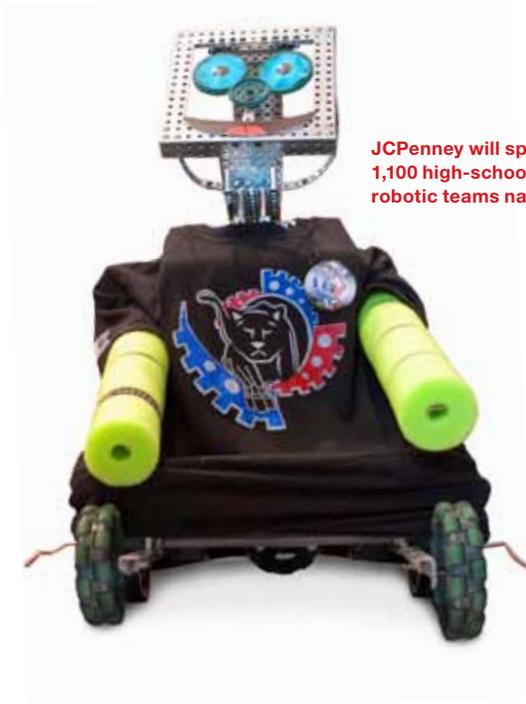
JCPenney cares about our community, the lasting impact we can have on our environment and the people in it. Continued leadership in our signature cause, JCPenney Afterschool, as well as our ongoing focus on being environmentally and socially responsible, enables us to maintain our position as a leader in corporate citizenship.

Visit [jcpenny.net](http://jcpenny.net) for more detailed information on our Corporate Social Responsibility.

## 10 Years of Afterschool Advocacy

As the leading corporate advocate for the movement to provide access to enriching programs for children after school, JCPenney celebrated its 10th year of inspiring kids to be smart, strong and socially responsible. Over the past decade, more than \$80 million has been distributed to afterschool programs nationwide to support activities that foster positive youth development. In 2009, JCPenney added a new charity partner, FIRST® (For Inspiration and Recognition of Science and Technology) to enhance educational opportunities after school by investing in America's future science and technology leaders.

Through FIRST, students are increasing their aptitude for science and math through competitions to design, build and program robots using engineering principles and a sports model of competition and teamwork. JCPenney's sponsorship of 60 high school teams across the country marks the beginning of the company's goal to expand FIRST to over 1,100 teams each year.



**JCPenney will sponsor  
1,100 high-school student  
robotic teams nationwide**

## Salvation Army Angel Giving Tree Online presented by JCPenney

This Christmas we joined forces with The Salvation Army to give joy to children and seniors in need through Angel Giving Tree Online. The first nationwide program of its kind, it allowed customers to adopt angels and shop and ship their gifts in the most convenient way possible. Through the help of many caring people, nearly 40,000 online Angels were adopted on [jcp.com](http://jcp.com) and given a merrier Christmas during the program's inaugural year.





## Reducing Emissions

JCPenney seeks to reduce the number of “empty miles” or distances that carriers drive empty trailers after merchandise has been delivered to their destinations. As a leading participant in the VICS Empty Miles Backhaul Initiative, JCPenney has saved \$5.6 million, with a net reduction of 14.7 million pounds of CO<sup>2</sup> emissions, by rerouting returning trucks to pick up additional merchandise and other cargo on their return from the store.



**Bisou Bisou and Nicole Miller reusable shopping bags**

## Responsibility Recognized Worldwide

Because of our efforts to incorporate sustainable practices into our business, JCPenney was named to the 2009 Dow Jones Sustainability Index of the leading companies in North America for corporate sustainability, ranked No. 44 in Newsweek magazine’s inaugural Green Rankings, which selected the 500 “Greenest Big Companies in America,” and “Top 100 Performing Companies” in the Maplecroft Climate Innovation Index.

## Energy Management

JCPenney is instituting a company-wide goal to reduce energy consumption by 20% per gross square foot by 2015. We plan on doing this by focusing on three areas: investing in energy efficiency improvements, such as lighting and HVAC systems, driving an Associate culture of energy stewardship that invites and rewards Associates for implementing conservation solutions, and aspiring to source 25% of our energy from renewable sources.



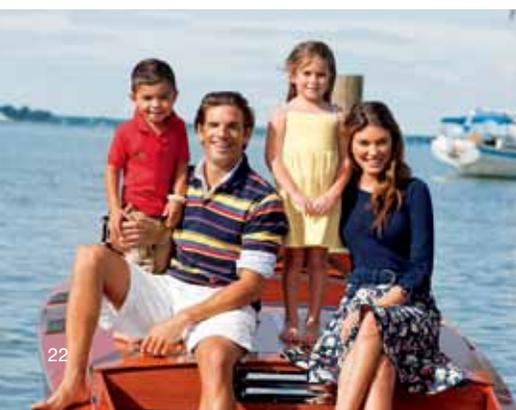
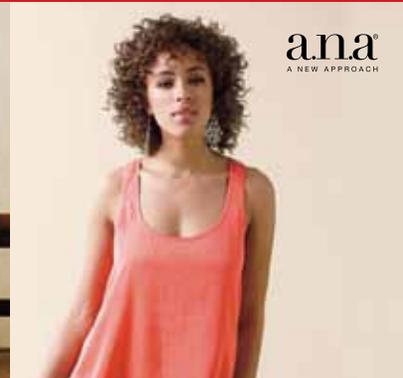
**Our Fairview, Texas store was designed and constructed to achieve LEED certification from the United States Green Building Council**

## Building Greener Buildings

Our goal is to design and construct new stores to meet the EPA’s “Designed to Earn the ENERGY STAR” criteria. One example is our store in Fairview, Texas, which opened in July 2009. Based on its design, the store is expected to use 22% less energy and 41% less water than the average similar building. Beyond JCPenney’s standard new-store design features, such as a reflective white roof and energy-efficient lighting, additional features expected to reduce the store’s environmental impact include landscape materials that reduce irrigation needs by 51%, and an Energy Management System that allows remote monitoring and control of HVAC and lighting systems.

# Stepping Up Our Strengths: Power Brands

JCPenney's private brands are an integral part of our efforts to build lasting relationships and enduring customer loyalty. Having an acute understanding of our customers allows us to grow and evolve the brands they've come to recognize and seek out — brands that span the categories of fashion for him and her, intimates, apparel for kids and infants, as well as home furnishings and cookware. Our private brands generate approximately 50% of our annual revenue, making our endeavors in this sector vitally important.



## American Living®

Introduced in February 2008, American Living was developed exclusively for JCPenney customers by Polo Ralph Lauren's Global Brand Concepts. A new tradition in American style for family and home, spanning nearly 40 merchandise categories with a full range of items for women, men and children, as well as accessories, footwear and home décor.



Stepping Up Our Financial Flexibility:

# Financial Discipline

The last year was challenging — one of the most difficult economic periods in history. Despite this, due to our disciplined approach and focus on protecting our profitability, we were able to further strengthen JCPenney's financial position. This strength allows us to continue to invest in what sets us apart: launching new and exciting merchandise initiatives, rewarding our Associates for their dedication to delivering a highly satisfying shopping experience, and enhancing our digital platform — jcp.com, social media, mobile and FindMore in our stores.

## Rising to the Challenge

JCPenney's financial position grew stronger in 2009. We delivered better than expected sales and earnings and ended the year with \$3 billion in cash on our balance sheet. The discipline we showed in executing our business in 2009 has laid the foundation for JCPenney to grow in the future. For 2010, we are focused on growing our sales and market share, protecting our gross margin to maximize earnings potential and delivering enhanced stockholder value.

Two year  
free cash  
flow<sup>(3)</sup> growth:

2008

\$21  
million

2009

\$806  
million

Operating Results	2009	2008	2007
Total net sales (in millions)	\$ 17,556	\$ 18,486	\$ 19,860
Comparable store sales (decrease)/increase <sup>(1)</sup>	(6.3)%	(8.5)%	0.0%
Gross margin as a percent of sales	39.4%	37.4%	38.6%
Income from continuing operations (in millions)	\$ 249	\$ 567	\$ 1,105
Adjusted income from continuing operations <sup>(2)</sup> (in millions)	\$ 433	\$ 484	\$ 1,043
Diluted earnings per share from continuing operations	\$ 1.07	\$ 2.54	\$ 4.90
Adjusted diluted earnings per share <sup>(2)</sup> from continuing operations	\$ 1.86	\$ 2.17	\$ 4.63
Free cash flow (in millions) <sup>(3)</sup>	\$ 806	\$ 21	\$ (142)
Cash and cash equivalents (in millions)	\$ 3,011	\$ 2,352	\$ 2,532
Cash and cash equivalents as a percent of long-term debt, including current maturities	88.8%	67.1%	68.3%
Dividends declared per common share	\$ 0.80	\$ 0.80	\$ 0.80
Number of JCPenney stores	1,108	1,093	1,067
Gross selling space (square feet in millions)	111.7	109.9	106.6

(1) Comparable store sales are presented on a 52-week basis and include sales from new and relocated stores that have been opened for 12 consecutive full fiscal months and online sales through jcp.com. Stores closed for an extended period are not included in comparable store sales calculations, while stores remodeled and minor expansions not requiring store closures remain in the calculations.

(2) Adjusted income from continuing operations and adjusted diluted earnings per share (EPS) from continuing operations exclude the non-cash impact of our primary pension plan expense/(income), net of income tax and are considered non-GAAP financial measures under the rules of the Securities and Exchange Commission (SEC). Their most directly comparable GAAP financial measures are income from continuing operations and diluted EPS from continuing operations. The primary pension plan expense/(income), net of income tax was \$184 million, or \$0.79 per share in 2009; \$(83) million, or \$(0.37) per share in 2008; and \$(62) million, or \$(0.27) per share in 2007. In 2009, income from continuing operations of \$249 million, or \$1.07 per share, plus \$184 million, or \$0.79 per share of non-cash primary pension plan expense provided adjusted income from continuing operations of \$433 million and adjusted EPS from continuing operations of \$1.86. In 2008, income from continuing operations of \$567 million, or \$2.54 per share, less \$83 million, or \$0.37 per share of non-cash primary pension plan income provided adjusted income from continuing operations of \$484 million and adjusted EPS from continuing operations of \$2.17. In 2007, income from continuing operations of \$1,105 million, or \$4.90 per share, less \$62 million, or \$0.27 per share of non-cash primary pension plan income provided adjusted income from continuing operations of \$1,043 million and adjusted EPS from continuing operations of \$4.63.

(3) Free cash flow is defined as cash provided by operating activities of continuing operations less capital expenditures and dividends paid, plus proceeds from the sale of assets and is considered a non-GAAP financial measure under the rules of the SEC; its most directly comparable GAAP financial measure is cash flow from operating activities. In 2009, cash provided by operating activities of continuing operations of \$1,576 million less \$600 million of capital expenditures, less \$183 million of dividends paid, plus \$13 million of proceeds from sale of assets provided \$806 million of free cash flow. In 2008, cash provided by operating activities of continuing operations of \$1,155 million less \$969 million of capital expenditures, less \$178 million of dividends paid, plus \$13 million of proceeds from sale of assets provided \$21 million of free cash flow. In 2007, cash provided by operating activities of continuing operations of \$1,249 million less \$1,243 million of capital expenditures, less \$174 million of dividends paid, plus \$26 million of proceeds from sale of assets resulted in \$(142) million of negative free cash flow.

**Myron E. (Mike) Ullman, III**

Chairman of the Board and  
Chief Executive Officer

**Colleen C. Barrett 2, 3**

President Emeritus,  
Southwest Airlines Co.

**M. Anthony Burns 2, 3**

Chairman Emeritus,  
Ryder System, Inc.

**Maxine K. Clark 2, 3**

Founder, Chairman and  
Chief Executive Officer,  
Build-A-Bear Workshop, Inc.

**Thomas J. Engibous 1, 4**

Retired Chairman of the Board,  
Texas Instruments Inc.

**Kent B. Foster 1, 4**

Retired Chairman of the Board,  
Ingram Micro Inc.

**Geraldine B. Laybourne 2, 3**

Founder and Former Chairman and  
Chief Executive Officer, Oxygen Media

**Burl Osborne 2, 3**

Interim Chief Executive Officer,  
Freedom Communications, Inc.;  
Retired Chairman of the Board,  
The Associated Press

**Leonard H. Roberts 1, 4**

Retired Chairman and  
Chief Executive Officer,  
RadioShack Corporation

**Javier G. Teruel 1, 4**

Partner, Spectron Desarrollo, SC;  
Retired Vice Chairman,  
Colgate-Palmolive Company

**R. Gerald Turner 2, 3**

President,  
Southern Methodist University

**Mary Beth West 1, 4**

Executive Vice President  
and Chief Marketing Officer,  
Kraft Foods Inc.

Numbers relate to Board Committee assignments described below.

**Myron E. (Mike) Ullman, III**

Chairman of the Board and  
Chief Executive Officer

**Ruby Anik**

Senior Vice President,  
Brand Marketing

**Michael J. Boylson**

Executive Vice President,  
Chief Marketing Officer

**Robert B. Cavanaugh**

Executive Vice President and  
Chief Financial Officer

**Thomas A. Clerkin**

Senior Vice President,  
Property Development

**Michael P. Dastugue**

Senior Vice President,  
Finance

**Janet L. Dhillon**

Executive Vice President,  
General Counsel and Secretary

**Lorraine Hitch**

Senior Vice President,  
General Merchandise Manager,  
Handbags and Shoes

**Jan Hodges**

Senior Vice President,  
General Merchandise Manager,  
Women's Accessories

**Clarence L. Kelley**

Executive Vice President,  
Planning and Allocation

**James Kenney**

Senior Vice President, Corporate  
Strategy and Investor Relations

**Marie Lacertosa**

Senior Vice President,  
Supply Chain Management

**Steve Lawrence**

Executive Vice President,  
Senior General Merchandise  
Manager, Men's, Children's and Home

**Peter M. McGrath**

Executive Vice President,  
Product Development  
and Sourcing

**Clark McNaught**

Senior Vice President, General  
Merchandise Manager, Children's

**Pam Mortensen**

Senior Vice President, General  
Merchandise Manager, Fine Jewelry

**Thomas M. Nealon**

Executive Vice President and  
Chief Information Officer

**Elizabeth H. Sweney**

Executive Vice President, Senior  
General Merchandise Manager,  
Women's Apparel, Accessories,  
Handbags & Shoes and Fine Jewelry

**Michael W. Taxter**

Executive Vice President,  
JCPenney Stores

**Michael T. Theilmann**

Executive Vice President,  
Chief Human Resources and  
Administration Officer

**John Tighe**

Senior Vice President, General  
Merchandise Manager, Home

**1. Member of the Audit Committee.**

This committee:

- selects and retains the independent auditors for the annual audit of JCPenney's consolidated financial statements,
- approves audit fees and non-audit services and fees of the independent auditors,
- reviews the independent auditors' audit strategy and plan, scope, audit results, performance, and independence,
- participates in the certification process for periodic reports filed pursuant to the Securities Exchange Act of 1934,
- reviews internal audit reports on the adequacy of internal controls,
- reviews the status of significant legal matters, the Company's ethics program, and the scope of the internal auditors' plans and budget and results of their audits, and
- reviews the effectiveness of the Company's program for correcting audit findings.

**2. Member of the Corporate Governance Committee.**

This committee:

- considers matters of corporate governance and reviews developments in the governance area as they affect relations between the Company and its stockholders,
- develops and recommends to the Board corporate governance principles and practices for the Company,

**Member of the Corporate Governance Committee (cont'd).**

- makes recommendations to the Board on the size, composition, organization, and responsibilities of the Board and its Directors,
- makes recommendations to the Board with respect to the qualifications of Directors, candidates for election as Directors, and the compensation of Directors, and
- makes recommendations to the Board regarding annual independence determinations and the annual performance self-assessment by the Board.

**3. Member of the Human Resources and Compensation Committee.**

This committee:

- reviews and administers the Company's annual and long-term incentive compensation plans,
- recommends or takes action with respect to senior executive officer compensation,
- performs periodic reviews of succession plans for key Company executives, including the CEO,
- reviews the annual financial condition and investment performance of the Company's retirement and welfare plans, including the annual actuarial valuation reports for the plans, and
- oversees the administration and operation of certain Company retirement and welfare plans.

**4. Member of the Finance Committee.**

This committee:

- reviews the Company's financial policies, strategies and capital structure.

**Services for Registered Stockholders**

Mellon Investor Services LLC (operating with the service name BNY Mellon Shareowner Services), the transfer agent for JCPenney, provides services such as record keeping, stock transfers, change of ownership, change of address and dividend payments for JCPenney registered stockholders. Registered stockholders who have questions or need assistance with their accounts should contact:

BNY Mellon Shareowner Services  
 P.O. Box 358015  
 Pittsburgh, PA 15252-8015  
 1-800-842-9470  
 www.bnymellon.com/shareowner/isd  
 email: shrrelations@melloninvestor.com

**Quarterly Earnings Conference Calls**

Live audio of each quarterly earnings conference call can be accessed through our Investor Relations website at jcpenny.net on the morning of the earnings release. Audio replays of the call are available up to 90 days following the event.

**Annual Meeting**

Friday, May 21, 2010, at 10:00 a.m. CDT  
 JCPenney Home Office  
 6501 Legacy Drive  
 Plano, TX 75024

**Fiscal 2010 Sales Release Dates**

Sales Period	Release Date
February 2010	March 4, 2010
March 2010	April 8, 2010
April 2010	May 6, 2010
May 2010	June 3, 2010
June 2010	July 8, 2010
July 2010	August 5, 2010
August 2010	September 2, 2010
September 2010	October 7, 2010
October 2010	November 4, 2010
November 2010	December 2, 2010
December 2010	January 6, 2011
January 2011	February 3, 2011

**Fiscal 2010 Earnings Release Dates**

Quarter	Release Date
1st Quarter	May 14, 2010
2nd Quarter	August 13, 2010
3rd Quarter	November 12, 2010
4th Quarter	February 25, 2011

**Contact Information**

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 Shopping: jcp.com Company information: jcpenny.net  
 Media Relations: 972-431-3400 jcpcorpcomm@jcpenny.com  
 Investor Relations: Phillip Sanchez 972-431-5575 psanc3@jcpenny.com

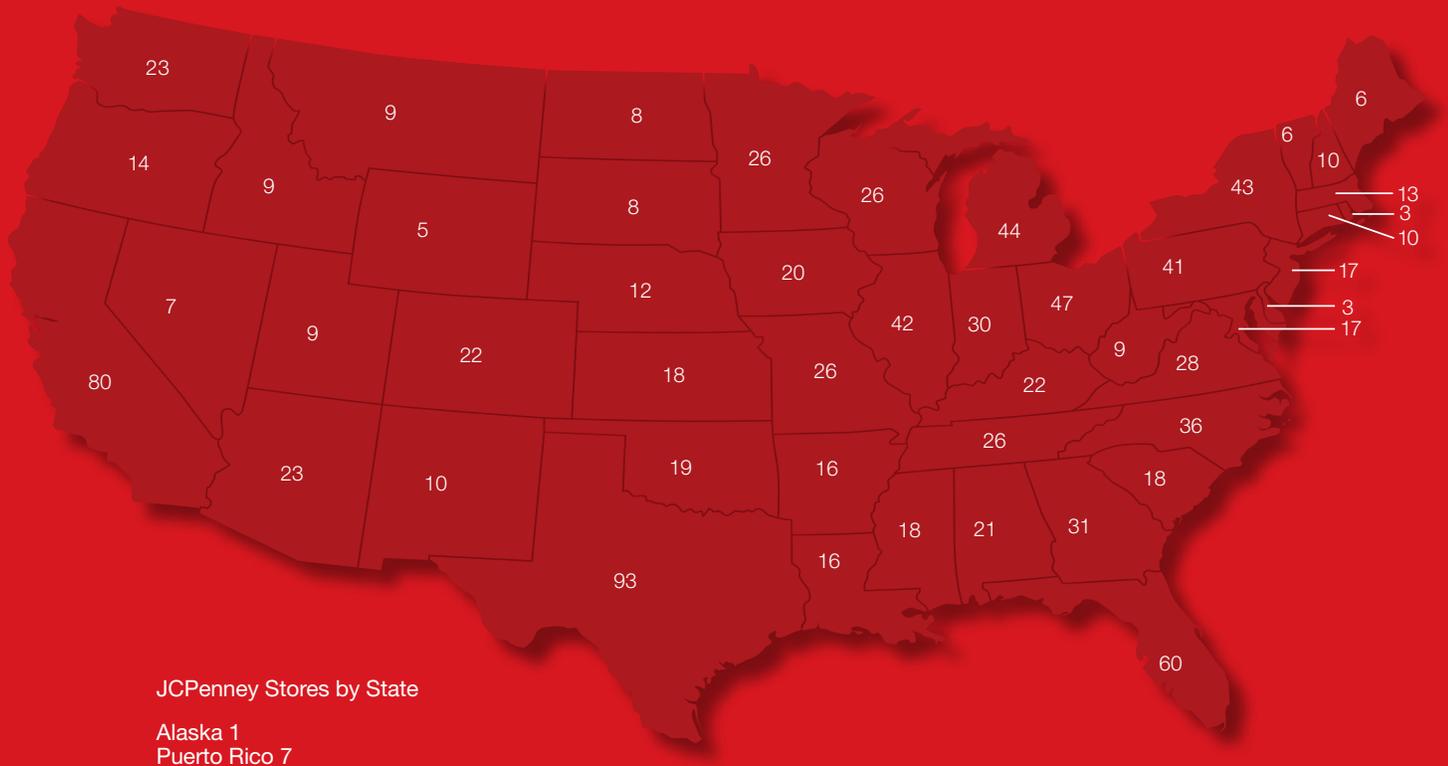


**Mixed Sources**  
 Product group from well-managed forests, controlled sources and recycled wood or fiber  
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# America's Department Store

1,108 total number of JCPenney Stores



# WINNING TOGETHER™ Principles

**associates** ■■■■■

We value, develop, and reward the contributions and talents of all associates

**integrity** ■■■■■

We act only with the highest ethical standards

**performance** ■■■■■

We provide coaching and feedback to perform at the highest level

**recognition** ■■■■■

We celebrate the achievements of others

**teamwork** ■■■■■

We win together through leadership, collaboration, open and honest communication, and respect

**quality** ■■■■■

We strive for excellence in our work, products, and services

**innovation** ■■■■■

We encourage creative thinking and intelligent risk taking

**community** ■■■■■

We care about and are involved in our communities

**we do this for our...****customers** ■■■■■

We build lasting relationships by offering superior service and value

**shareholders** ■■■■■

We aspire to superior financial performance

# JCPenney®