

# JCPenney

J. C. Penney Company, Inc. Annual Report 2008

# Accelerate

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2008: A year of unprecedented challenges to our customers. More than ever, our promise of **great style, quality and affordable prices** resonates in their everyday lives.

JCPenney remains committed to our Long-Range Plan and has initiated comprehensive, short-term strategies to adjust for the difficult retail environment.

We will continue to:

**Accelerate** initiatives that provide us a significant competitive edge.

**Maintain** initiatives that reinforce our status as a retail industry leader.

**Moderate** certain initiatives to make us more efficient and preserve our strong financial position.

We see great opportunities to strengthen the bond with our customers and become better, stronger and more relevant as we navigate through these demanding times.

**Every Day Matters.**

A photograph of a JCPenney retail store. The building is a modern, two-story structure with a light-colored stone or concrete facade. Large, multi-paned windows are visible, reflecting the sky. A prominent red JCPenney logo is mounted on the left side of the building. In the foreground, several people are walking on a paved sidewalk. A woman in a light-colored jacket and blue jeans is walking towards the right, carrying a brown bag. Other people, including a child, are visible further back. To the right, a red awning covers the entrance area, and a sign above the entrance reads "GRAND OPENING". The sky is a pale blue with some light clouds.





### Dear JCPenney Stockholders:

In the face of a rapidly declining economy, JCPenney took substantial steps in 2008 to position our business to effectively deliver results for those most important to us — our **Customers**, our **Associates** and our **Investors**. Our blueprint for effectively managing through the economic downturn is our Bridge Plan, which focuses on those initiatives that we continue to Accelerate, Maintain or Moderate in order to put us back on the trajectory of our Long-Range Plan for retail growth and leadership when the environment improves.

In short, we are focused on tightly managing all aspects of our business that are in our control, in order to best offset the impact of the deep decline in consumer confidence and spending that began in the latter part of 2007. The actions we took allowed us to bolster our financial position in 2008. While we had operating income of \$1.1 billion compared to \$1.9 billion in 2007, we generated positive free cash flow and ended the year with approximately \$2.4 billion of cash on our balance sheet — making us one of the best capitalized retailers in the industry with among the lowest “cash burn” rates. Based on this, we were able to maintain our annual cash dividend at \$0.80 per share.

As we look ahead, our financial and operating flexibility puts us in a strong competitive position relative to our mall-based competitors. Given our expectation that these challenging economic conditions will persist for the foreseeable future, we are continuing to execute our Bridge Plan to withstand these headwinds and grow our market share when the environment improves.

### Showing Our CUSTOMERS That What Matters to Them, Matters to Us

Our Every Day Matters philosophy centers on showing our customers that what matters to them, matters to us. This means demonstrating that we understand the financial pressures they are under and making it clear why they should choose us above all others.

Most critical to this is that while we are maintaining the affordability JCPenney is known for, we are “stepping up” the style and fashion across our merchandise assortments by:

- building our portfolio of Exclusive Brands designed by some of the world’s fashion leaders;
- continuing to enhance American Living, a new tradition in American style exclusively designed by Polo Ralph Lauren’s Global Brand Concepts;
- introducing new Private Brands to address underrepresented parts of our business, and further refining the style of our leading private brands: Worthington, Stafford, The Original Arizona Jean Co. and St. John’s Bay; and,
- reinforcing our position as the “headquarters” for some of the country’s most desired National Brands.

Examples of the great style we offer can be seen throughout the pages of this Summary Annual Report.

Although mall traffic was down substantially in the second half of 2008, we believe that the style and quality of our merchandise, coupled with our marketing and highly compelling promotions, helped to drive traffic levels in our stores that were higher than the mall overall, as well as to attract customers to our off-mall stores and jcp.com.

We are also bringing excitement into our stores by accelerating our roll-out of Sephora inside JCPenney. The more than 100 locations we have today are generating strong sales, and leading customers to shop across the store as well. We plan to have more than 150 locations by the end of 2009. To ensure we are most effectively communicating to our customers the newness and value we offer, we are executing updated marketing strategies that better leverage new media outlets to reach our customers and answer the question, “Why JCPenney?” In addition, we are showing our existing customers that we appreciate their loyalty by continuing to expand “JCP Rewards,” a program that allows members to receive special offers and benefits.

We are also continuing to invest in our digital platform, which includes maintaining jcp.com’s industry-leading position as the largest general merchandise website on the Internet. In doing this, we are focused on staying current with customer-facing technology trends, and how consumers use this technology, so we can reach them directly and make it easier for them to shop JCPenney.

“Highly satisfied Customers, highly engaged Associates and highly rewarded Investors will enable us to emerge a clear winner.” Mike Ullman

### Empowering Our ASSOCIATES

Customer service is a key differentiator for JCPenney, and our Associates are the “front line” in delivering that service. Central to JCPenney’s approach is ensuring that our Associates are deeply engaged in their work by giving them the tools to succeed. Last year, we introduced CustomerFIRST, a comprehensive customer service platform that empowers every JCPenney Associate to make customers their No. 1 priority. Its success to date is evident in:

- a notable increase in our Associate engagement score, with particularly strong marks for giving Associates the training and authority necessary to do their jobs;
- a substantial decline in our Associate turnover, which both supports improvement in our customer service as well as reduces training costs for new hires; and,
- a significant improvement in our customer service ranking. In fact, we ranked No. 1 in customer service among department store retailers and No. 7 among all retailers in the 2008 National Retail Federation Foundation/American Express Customer Service Survey.

Our Associate engagement work is part of JCPenney C.A.R.E.S. (Community, Associates, Responsible Sourcing, Environment and Sustainable Products), our corporate social responsibility program. The strides we have made in these areas are described in our annual Corporate Social Responsibility Report, which is available through [jcpenny.net](http://jcpenny.net) and includes an update on the growth of the JCPenney Afterschool Fund, the No. 1 national organization dedicated to inspiring America’s children to be smart, strong and socially responsible.

### Building Value for Our INVESTORS

As we pursue these initiatives, we continue to manage our business very conservatively. Specifically, we are:

- matching our inventory levels with sales trends by further reducing product development cycles and controlling our vendor orders. This allowed us to end 2008 with comparable store inventory 13.5% below 2007 levels. Looking ahead, we are planning our inventories for 2009 to be down approximately 10%, in line with our comparable store sales expectation.

- capitalizing on our jTime workforce management system, which allows us to match store staffing levels with expected traffic, and generate significant expense savings.
- implementing even stronger expense discipline throughout our business by thoroughly analyzing processes across the Company to eliminate unnecessary costs.
- modifying our store opening plans, while improving our existing locations. In 2008, we incurred capital expenditures of just under \$1 billion, which we used towards opening 35 new or relocated stores, primarily in our off-mall format. We also completed significant fixturing and store environment improvements in about 600 stores across the country, as well as 24 major renovations and 90 store refurbishments.

For 2009, we have reduced our capital spending expectations to \$600 million, which includes plans to renovate approximately 15 stores and relocate or open 17 additional stores, including our first location in Manhattan, in one of the country’s busiest shopping areas. Additionally, we will continue to make improvements in our store environment as we open more Sephora inside JCPenney locations in the center core of our stores, and plan for new merchandise fixturing to support apparel and home brand launches.

### Our Vision Remains Intact: To Be the Preferred Retail Choice for America’s Families

While the current economic climate is making the path longer, we have not lost sight of our vision to be the preferred retail choice for America’s families.

As we work to achieve this, my sincerest appreciation goes to our Associates for the care, commitment and enthusiasm they bring to work every day. I also want to thank our Board members for their solid judgment, intense focus and willingness to share the benefits of their experience. Finally, to our stockholders, thank you for your continued support. We are committed to making JCPenney a rewarding investment for you.



Myron E. (Mike) Ullman, III  
Chairman of the Board and Chief Executive Officer  
April 2009

Keeping up with our customers means we stay ahead of the competition

# Accelerate



Enhanced overall  
brand awareness



## **The JCPenney value proposition**

JCPenney has long been a destination for Middle America, serving more than half of the nation's households each year. Customers can trust JCPenney to offer merchandise with exceptional style and quality at affordable prices. Our marketing is designed to communicate this unique value proposition, while reinforcing our philosophy that Every Day Matters. Throughout the year, we used innovative marketing tools to break through the messaging clutter and attract new customers.

For the 2008 Back-to-School season, we showed teens how to "Get That Look" and even offered a fun, online game, "Dork Dodge," to engage young adults with the new JCPenney brand, Dorm Life. The "Joy of Giving" made the holidays easier and more exciting by displaying our gift selection, and this spring, we highlighted the stepped-up style of our exclusive designer brands. To promote The Jewelry Store Inside JCPenney, "Beware of the Doghouse," a viral marketing campaign, enabled women to comically reprimand their loved ones for bad gift choices, and suggest gift ideas from our jewelry selection. These are just a few examples of how our marketing plays a pivotal role in communicating the great value in shopping at JCPenney, where "Style. Quality. Price." always matter.



Innovations at jcp.com exemplify how we continue to build a leading multi-channel experience that makes shopping JCPenney easier and more exciting.

## Making shopping easier and more exciting

An integral part of our digital platform, jcp.com is an important vehicle for engaging our customers with the JCPenney brand. Our research shows that nearly 70% of jcp.com visitors come to the site to do some form of research: viewing merchandise, comparing prices, finding sales and promotions and exploring apparel and home ideas.

To meet these visitors' needs and keep jcp.com a major online shopping destination, features have been added and improved. Updates include enhanced product images and information, more advanced search capabilities, improved access to merchandise availability at local stores through our "Know Before You Go" feature, the ability to view weekly sales circulars online, customer reviews, site-to-store delivery options, and the introduction of "Screenbusters," the online version of the Company's popular in-store "Doorbusters."

## ★★★★★ Customer reviews

Customers can now share their JCPenney product experiences with other shoppers by posting ratings, comments, videos and photos on jcp.com. They can even link to their favorite social networking sites, such as Facebook, Delicious or Digg. Customer reviews not only help our customers make more confident purchasing decisions, they provide JCPenney with valuable insights.



## JCP Rewards. A smart way to say "thank you."



With "JCP Rewards" we are able to build long-term customer loyalty by rewarding customers for regularly shopping at JCPenney. Membership is free and managed completely online. To join, customers visit [jcprewards.com](http://jcprewards.com) and register up to three personal credit or debit cards, all of which can accumulate points — one point for every dollar they spend at JCPenney stores, [jcp.com](http://jcp.com) or catalog. Points double for customers who shopped at JCPenney the previous month. JCP Rewards members receive monthly e-mail statements with their point balance and are notified if they have earned a \$10 reward. They are eligible to earn up to \$120 in reward certificates annually. Since its launch in fall 2008, more than 1 million members have joined the program, and it continues to grow.





## Sephora inside JCPenney: A beautiful relationship

### Another reason to shop at JCPenney

JCPenney has become a major presence in the beauty business since partnering with Sephora in 2006. Sephora shops — located conveniently inside a number of our stores — carry top brands in makeup, skincare, fragrance and accessory products, and are staffed with product consultants trained in the “Science of Sephora” education program. These shops have created great excitement among our loyal customers. Additionally, we’ve converted thousands of customers who came to shop Sephora into new, loyal JCPenney customers. Sephora inside JCPenney nearly doubled its presence in 2008 by opening 44 new shops. With the addition of 14 new shops in March 2009, Sephora inside JCPenney is in 105 stores, with plans to open another 50 locations later in 2009.



**Concepts: Key reasons why customers are discovering a whole new JCPenney**

# Accelerate



# Maintain

American Living: Continually evolving to meet our customers' needs



## The largest brand launch in Company history

**February 2008: JCPenney introduces a new tradition in American style for family and home**

Created exclusively for JCPenney customers by Polo Ralph Lauren's Global Brand Concepts, American Living is a new tradition in American style for the entire family and the home. American Living captures the American spirit with a mix of sporty, iconic essentials and unique, eye-catching looks — all designed with superior quality and a fresh, free-spirited take on the every day. American Living spans 40 merchandise categories with a full range of apparel for women, men and children, as well as accessories, footwear and home décor. A fully integrated, two-year sponsorship with Rascal Flatts will further promote the brand with the "Rascal Flatts American Living Unstoppable Tour" presented by JCPenney, kicking off on June 5, 2009.



# Maintain

Opportunity leads to innovation, and newness keeps customers excited

## Our competitive advantage

JCPenney has been developing its own private brands for more than 50 years. Today, many of these brands have achieved consumer awareness on par with major national brands. Because of JCPenney's industry-leading product development initiatives — including brand management, trend, design, multi-country sourcing, logistics, technology, quality-control/testing facilities, and inventory management — these brands continue to bring newness and innovation to our merchandise offering. Together, these initiatives create a unique competitive advantage. Our successful 2008 launches of Decree and Linden Street are examples of how our brands are quickly embraced by customers.



## Brands developed with our customers in mind

What matters to our customers, matters to us. That's why we are focused on offering the most desired brands in retail — brands developed with the unique needs and aspirations of our customers in mind. In 2008, we introduced exciting private brands to JCPenney: Decree, an all-American lifestyle brand for Juniors; Linden Street, a cozy, casual home collection for the neo-traditional lifestyle customer; Dorm Life, a comprehensive dorm décor brand for design-savvy young adults; and Xersion, an activewear brand for today's modern women and men. Additional brand launches included Fabulosity, an exclusive brand for Juniors, created by Kimora Lee Simmons, and national brands, Messages from the Heart and Disney's Hannah Montana in Children's, and White Tag in Young Men's.





Linden Street™

## Stepping up our style



I ♥ RONSON™



JOE JOSEPH ABBOUD



ALLEN B.  
BY ALLEN SCHWARTZ

### Our exclusive brands from today's top designers

Collaborating with some of the most renowned names in the fashion industry, JCPenney is quickly becoming the destination for authentic designers to bring their expertise and unique flair for style. This allows us to offer customers runway fashions at an incredible value, while providing an opportunity for designers to expand and introduce their brand to the Middle American consumer. New exclusive brands debuting in 2009 include I "Heart" Ronson by Charlotte Ronson; JOE by Joseph Abboud; and ALLEN B. by "master of trend" Allen B. Schwartz. Additionally, style expert Cindy Crawford has partnered with JCPenney to launch an exclusive home brand, Cindy Crawford Style.



cindy crawford  
STYLE

"Great style is timeless. My new collection is designed to inspire and help create a look that's fresh, effortless and enduring."



Headquarters for the most recognized  
and desired national brands



IZOD



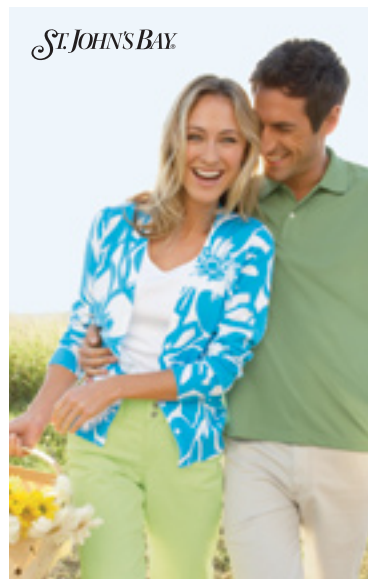
carter's



Le TIGRE

### Must-have national brands

When our customers think of these brands, they think of JCPenney. As the No. 1 or No. 2 retail carrier of Levi's, Dockers, Southpole, Carter's, Haggar, Easy Spirit and Alfred Dunner, JCPenney is the destination for the must-have national brands that customers want and value.



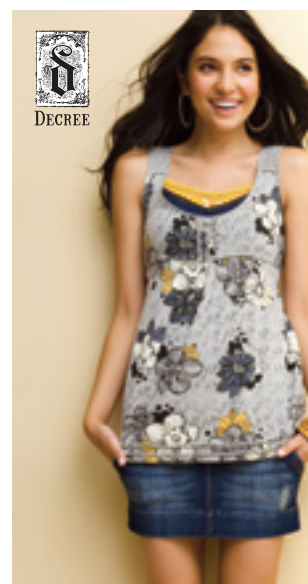
St. JOHN'S BAY



J. Ferrar



ana  
A NEW APPROACH



DECREE

# Maintain

The brands that mean the most to our customers ... getting better all the time



## Discover our top private brands

Generating nearly 45% of our annual revenue, JCPenney private brands are essential to building customer loyalty. With strong customer acceptance, 12 of our private brands have meaningful brand recognition well beyond our JCPenney stores, jcp.com and catalog. These 12 "Power" brands allow us to create a deeper, more emotional and enduring relationship with our customers. Leveraging a profound understanding of our customers, we continue to grow these brands. In 2008, our career-wear brands, Stafford and Worthington, were updated and expanded, and in 2009, our customers can expect exciting changes to St. John's Bay and The Original Arizona Jean Co.

Using every resource to empower our Associates and please our customers

# Maintain

## Customers vote JCPenney No. 1 department store in customer service

JCPenney ranked first in customer service among department store retailers, and jumped five spots to achieve seventh place overall, in the 2008 National Retail Federation Foundation/American Express Customer Service Survey. These results come on the heels of JCPenney's CustomerFIRST initiative, launched in spring 2008. Through comprehensive customer service training, CustomerFIRST focuses on empowering every JCPenney Associate to make customers their No. 1 priority. This ranking is a testament to our Associates bringing our Every Day Matters philosophy to life, by showing our customers that what matters to them, matters to us.



Sephora inside JCPenney, an opportunity to exceed customers' expectations.

## Our customers are more than a transaction

The right Associate attitude makes a significant difference in how customers feel about shopping at JCPenney. CustomerFIRST is about providing valuable customer service beyond what's expected. CustomerFIRST includes three key initiatives: GREAT!, "Yes We Can!" and "I Can Help."

**GREAT!** (Greet, Respect, Engage, Assist, Thank and have fun!) is an easy-to-remember formula for improving customer satisfaction, and it describes how Associates interact with our customers.

**Yes We Can!** empowers our Associates to take care of customers without always having to ask for permission from a manager or supervisor.

**I Can Help** trains all store Associates — not just our selling floor Associates — to assist in serving customers. Our Associates know that they play a vital role in improving the customer experience. That's why it's CustomerFIRST, tasks second.





## Customer **FIRST**

As Associates, we are the key to providing **GREAT!** customer service. Just remember these steps for **GREAT!** service to our Customers:

**GREET** Welcome every Customer – they could be shopping at a competitor instead.

**RESPECT** Be courteous and seek to understand the Customer.

**ENGAGE** Our Customers' time is valuable; take care of them quickly and efficiently. Talk to them about their purchases.

**ASSIST** Let them know we are here to help.

**THANK** Sincerely; they did us a favor by shopping with us.

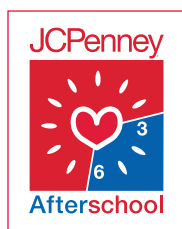
**!** Add your own unique style and have fun! You'll feel good and so will everyone around you.

# JCPenney C.A.R.E.S.

Our comprehensive approach to corporate social responsibility is focused on positively impacting the areas of **C**ommunity, **A**ssociates, **R**esponsible Sourcing, **E**nvironment and **S**ustainable Products. For complete information on JCPenney C.A.R.E.S., see our annual CSR Report at [jcpenny.net](http://jcpenny.net).

## Community

At JCPenney, the purpose of our community relations program is to inspire kids to be smart, strong and socially responsible. Our vision is to be the corporate leader in youth development with a signature focus on afterschool. In 2008, the JCPenney Afterschool Fund awarded more than \$13 million to afterschool programs in every community where JCPenney does business. The JCPenney Afterschool Fund also expanded its reach to FIRST (For Inspiration and Recognition of Science and Technology), a charity whose mission is to inspire young people to be science and technology leaders.



Also in 2008, JCPenney helped communities across the country through our annual Giving Together campaign, which generated more than \$11.6 million for the United Way and JCPenney Afterschool Fund. Additionally, we honor Associate volunteerism through our James Cash Penney Award for Community Service program, which allows Associates the opportunity to earn financial donations for their favorite charities. In collaboration with Associates, customers and suppliers, JCPenney and the JCPenney Afterschool Fund provided more than \$28 million in financial and in-kind donations to charitable organizations.

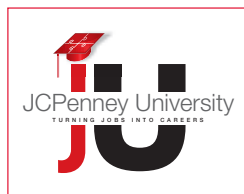


Valuing our Associates' diversity helps us better serve our diverse customer base.

## Associates

At JCPenney, we're investing in our greatest strength and competitive advantage: our 150,000 Associates in our Stores, Logistics Centers, Home Office and other facilities across the country. Engaging our Associates in the Company's goals and their own personal success is key to driving our business — and to retaining, attracting and developing the best people in retail.

In addition to an unwavering focus on training, engagement and diversity, we continue to foster a WINNING TOGETHER culture by living our eight WINNING TOGETHER principles every day.



**Training.** JCPenney is committed to the career advancement of all Associates. That's why we founded JCPenney University or jU — our college of higher learning with a population of 150,000 undergraduates. With over 2,000 different courses offered, Associates logged an impressive 2.5 million hours of training last year, averaging five courses per Home Office Associate, and 11 courses per Store Associate.

**Engagement.** Our annual WINNING TOGETHER engagement survey provides an opportunity for all JCPenney Associates to confidentially voice their opinions and concerns about a variety of workplace issues. It also provides an opportunity to measure our progress on Associate engagement. In 2008, more than 130,000 responses were received — a 91% response rate — and our overall engagement score rose by two points over the prior year to 76.4%. According to Gallup's Engagement research, this score places our Associates in the top quartile of U.S. workforces.



**Diversity.** Our commitment to inclusion and diversity is essential to bringing our Every Day Matters philosophy to life for our Associates, customers and the communities we serve. To support this, all Associates are equipped with ongoing diversity training and tools, empowering them to better serve our diverse customer base and exceed those customers' expectations every time they shop with us. In addition, we realize that cultural celebrations help us understand the diversity of our customers and our Associates. That's why JCPenney expanded its cultural heritage recognition programs to ensure all Associates across the Company can celebrate different groups and cultures. As a result of our commitment, we have seen a significant increase of women and minorities in middle management, and we continue to receive top marks from key organizations such as the Human Rights Campaign, Catalyst and DiversityInc.



# Maintain

Engaging our Associates and giving back to our communities

## Responsible Sourcing

JCPenney has long placed an emphasis on ensuring that our suppliers treat their employees fairly and with respect. We also monitor our suppliers' compliance with health, safety and labor regulations.

**Product safety efforts.** We are the first importer approved to participate in the government's Importer Self-Assessment — Product Safety program, available to importers that demonstrate their ability to meet specific criteria for internal controls and processes to ensure product safety, as well as ongoing compliance with best-practice standards set by the U.S. Customs and Border Protection and the Consumer Product Safety Commission. Participating in the program helps expedite the release of goods at U.S. borders.

## Environment

We believe we have a responsibility to minimize our impact on the environment, and we strive to find ways we can reduce energy use, greenhouse gas emissions and waste.

### Energy Star Partner.

JCPenney was the first retailer selected as an ENERGY STAR Partner of the Year in the Energy Management category, an honor bestowed in both 2007 and 2008. JCPenney also received a third consecutive honor in March 2009, being the first retailer to receive the Sustained Excellence Award for Energy Management.

**Clean-Diesel Trucks.** JCPenney and its trucking partner, PDS Trucking, Inc., have recently converted 100% of the JCPenney dedicated truck fleet at the LA/Long Beach port to low-emissions, clean-diesel technology.

**Renewable Energy.** Five JCPenney stores in New Jersey and four in California became the Company's first to host rooftop solar power projects in 2008, while the Reno, Nevada logistics center became the first facility to host an innovative rooftop wind power system. Both projects utilize power purchase agreements, and the solar project takes advantage of renewable energy incentives, making it financially viable.

## Sustainable Products

We share with our customers a deep commitment to protecting the environment, and we have made shopping for environmentally conscious products even easier. Our Simply Green designation identifies for customers JCPenney products that are organic, renewable, made from recycled materials, or products that reduce energy use or reduce the impact on the environment during production. We continue to look for ways to bring products to market that deliver environmental benefits by incorporating sustainable materials and reduced packaging, while maintaining the style, quality and smart prices our customers have come to expect from JCPenney.

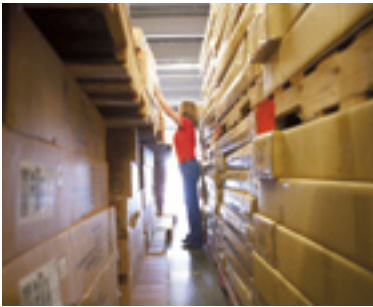
Designs for our new Simply Green reusable shopping bags were created by winners of a design contest that ran on three college campuses. The contest was part of our robust college recruitment program.



# Moderate

## Balancing growth and the demands of the current environment

JCPenney is focused on balancing long-term growth opportunities with the near-term pressures of the consumer environment. Our strong financial position allows us to concentrate on appropriately managing inventory levels, operating expenses and capital expenditures without the need for substantial changes to our business model. This flexibility keeps us in a strong competitive position, relative to our mall-based competitors, and gives us the ability to navigate the challenges of the current economic downturn.



### Capital Investment

Reducing capital spending, in line with actual and anticipated sales trends, reflects the best use of our resources to further enhance cash flow, and ensure we are well-positioned to take market share when the environment improves. Capital expenditures in 2008 were \$969 million, and for 2009, have been lowered to approximately \$600 million, including a reduced store opening and renovation plan. The majority of capital expenditures for 2008 and 2009 are allocated for new stores and renovations. JCPenney opened 35 new stores in 2008, and will open 17 new stores in 2009. Additionally, in 2008, we completed significant fixturing and store environment improvements in approximately 600 stores, as well as 24 major renovations and 90 store refurbishments.

## JCPenney Takes Manhattan

One of the busiest and best retail crossroads in America, 33rd Street and 6th Avenue, will be home to the JCPenney store in Manhattan, opening in the summer of 2009. The 150,000-square-foot, three-level store in the Manhattan Mall will benefit from bustling street-level traffic, as well as below-ground entrances from one of the city's busiest subway lines. We expect the store's productivity to be significantly higher than a typical JCPenney store, and we look forward to showcasing our value proposition of style, quality and smart prices to millions of potential customers.



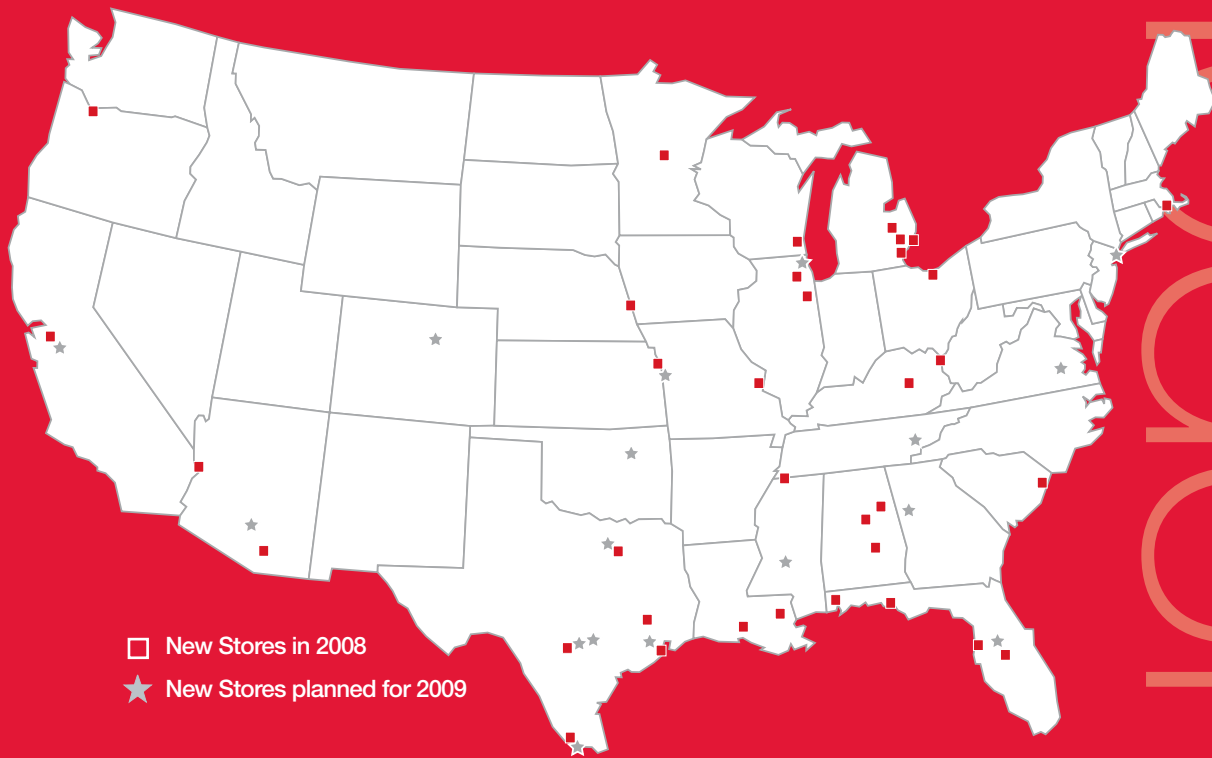
### Managing Expenses

Regardless of the economic environment, we constantly review our organizational effectiveness and efficiencies. To that end, we are managing expenses to be aligned with our adjusted sales expectations, and are focused on expense control and identifying opportunities for savings. SG&A expense control has been an area of strength for us. For the last three years, total operating expenses, exclusive of pension expense, have been essentially flat and are expected to remain flat in 2009. Additionally, our JTime workforce management tool has allowed us to achieve significant savings in store payroll by better matching store staffing with anticipated customer traffic. We have been able to accomplish reductions by prudently cutting expenses while, at the same time, making continued improvements in our customers' shopping experiences.

### Inventory Management

As a result of Company investments in new technology for planning and allocation, as well as in our outstanding fulfillment and distribution network, we have the tools and talent in place to appropriately manage inventory levels to be in line with expected sales trends. Our technology and merchandise flow initiatives, including cycle time reduction, provide better visibility into our business, and allow us to make more rapid adjustments to changing circumstances.

35 new or relocated stores opened in 2008  
17 new or relocated stores are planned to open in 2009



## America's Department Store

1,093 total number of JCPenney Stores

Alabama	21	Iowa	20	Nevada	7	South Dakota	8
Alaska	1	Kansas	18	New Hampshire	10	Tennessee	25
Arizona	22	Kentucky	22	New Jersey	17	Texas	89
Arkansas	16	Louisiana	16	New Mexico	10	Utah	9
California	79	Maine	6	New York	42	Vermont	6
Colorado	21	Maryland	17	North Carolina	36	Virginia	27
Connecticut	10	Massachusetts	13	North Dakota	8	Washington	23
Delaware	3	Michigan	45	Ohio	47	West Virginia	9
Florida	59	Minnesota	26	Oklahoma	18	Wisconsin	25
Georgia	30	Mississippi	17	Oregon	14	Wyoming	5
Idaho	9	Missouri	25	Pennsylvania	41	Puerto Rico	7
Illinois	42	Montana	9	Rhode Island	3		
Indiana	30	Nebraska	12	South Carolina	18		

109.9 million total gross square feet

# Board of Directors

(numbers relate to Board Committee assignments described below)

## 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.

## Ken C. Hicks

President and  
Chief Merchandising Officer

## Burl Osborne 2, 3

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.

# Executive Board

## Myron E. (Mike) Ullman, III

Chairman of the Board and  
Chief Executive Officer

## Ken C. Hicks

President and  
Chief Merchandising Officer

## Jeffrey J. Allison

Executive Vice President,  
General Merchandise Manager,  
Home and Custom Decorating

## Ruby Anik

Senior Vice President and  
Director, 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,  
Director of Finance

## Michael P. Dastugue

Senior Vice President,  
Director of Property Development

## Janet L. Dhillon

Executive Vice President,  
General Counsel and Secretary

## Clarence L. Kelley

Executive Vice President,  
Director of Planning and Allocation

## Marie Lacertosa

Senior Vice President,  
Director of Supply Chain  
Management

## Steve Lawrence

Executive Vice President  
and General Merchandise  
Manager, Men's Division

## Peter M. McGrath

Executive Vice President,  
Director of Product Development  
and Sourcing

## Thomas M. Nealon

Executive Vice President and  
Chief Information Officer

## Beryl Raff

Executive Vice President,  
General Merchandise Manager,  
Fine Jewelry

## Elizabeth H. Sweney

Executive Vice President,  
General Merchandise Manager,  
Women's Apparel

## Michael W. Taxter

Executive Vice President,  
Director of JCPenney Stores

## Michael T. Theilmann

Executive Vice President,  
Chief Human Resources and  
Administration Officer

### 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.



# 2008 Financial Highlights

Operating Results	2008	2007	2006	2005	2004
Total net sales (\$ in millions)	\$ 18,486	\$ 19,860	\$ 19,903	\$ 18,781	\$ 18,096
Total net sales percent (decrease)/increase	(6.9)%	(0.2)% <sup>(1)</sup>	6.0% <sup>(1)</sup>	3.8%	3.3% <sup>(1)</sup>
Comparable store sales (decrease)/increase <sup>(2)</sup>	(8.5)%	0.0%	4.9%	4.2%	5.9%
Sales per gross square foot <sup>(3)</sup>	\$ 160	\$ 177	\$ 176	\$ 167	\$ 159
Sales per net selling square foot <sup>(3)</sup>	\$ 223	\$ 248	\$ 248	\$ 236	\$ 225
Gross margin (\$ in millions) As a percent of sales	\$ 6,915 37.4%	\$ 7,671 38.6%	\$ 7,825 39.3%	\$ 7,191 38.3%	\$ 6,792 37.5%
Selling, general and administrative (SG&A) expenses (\$ in millions) As a percent of sales	\$ 5,395 29.2%	\$ 5,402 27.2%	\$ 5,470 <sup>(4)</sup> 27.5%	\$ 5,115 27.2%	\$ 5,015 27.7%
Operating income (\$ in millions) As a percent of sales	\$ 1,135 6.1%	\$ 1,888 9.5%	\$ 1,922 9.7%	\$ 1,631 8.7%	\$ 1,275 7.0%
Income from continuing operations (\$ in millions)	\$ 567	\$ 1,105	\$ 1,134	\$ 977	\$ 657
Diluted earnings per share from continuing operations	\$ 2.54	\$ 4.90	\$ 4.88	\$ 3.83	\$ 2.20
Return on beginning stockholders' equity from continuing operations	10.7%	25.8%	28.3%	20.1%	12.1%
Cash flow from operating activities of continuing operations (\$ in millions)	\$ 1,155	\$ 1,249	\$ 1,258	\$ 1,339	\$ 1,219
Capital expenditures (\$ in millions)	\$ 969	\$ 1,243	\$ 772	\$ 535	\$ 398
Dividends declared per common share	\$ 0.80	\$ 0.80	\$ 0.72	\$ 0.50	\$ 0.50
Number of JCPenney stores	1,093	1,067	1,033	1,019	1,017
Gross selling space (square feet in millions)	109.9	106.6	103.1	101.4	101.3

## Common Stock Holdings

The following table shows the approximate ownership percentage of the Company's common stock by major category as of December 31, 2008:

### % Ownership

83% Institutional

8% Company savings plan

9% Individual and other

(1) Includes the effect of the 53rd week in 2006 and 2003. Excluding sales of \$254 million for the 53rd week in 2006, total net sales increased 1.1% and 4.6% for 2007 and 2006, respectively. Excluding sales of \$198 million for the 53rd week in 2003, total net sales increased 4.5% for 2004.

(2) Comparable store sales 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. The 2006 calculation is presented on a 52-week basis.

(3) Calculations include the sales and square footage of department stores that were open for a full fiscal year as of each year end, as well as online sales through jcp.com. The 2006 calculations exclude sales of the 53rd week.

(4) Includes \$65 million of incremental expenses related to the 53rd week of 2006.

# Stockholder Information

## 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](http://www.bnymellon.com/shareowner/isd)  
email: [shrrelations@melloninvestor.com](mailto:shrrelations@melloninvestor.com)

## Quarterly Earnings Conference Calls

Live audio of each quarterly earnings conference call can be accessed through our Investor Relations website at [jcpenney.net](http://jcpenney.net) on the morning of the earnings release. Audio replays of the call are available up to 90 days following the event.

## Certifications

The Company submitted its annual CEO Certification to the New York Stock Exchange in 2008 as required by Section 303A.12(a) of the New York Stock Exchange Listed Company Manual. The Company filed the CEO and CFO certifications required under Section 302 of the Sarbanes-Oxley Act of 2002 with the Securities and Exchange Commission as exhibits to its 2008 Annual Report on Form 10-K.

## Annual Meeting

Friday, May 15, 2009, at 10:30 a.m. CDT  
JCPenney Home Office  
6501 Legacy Drive  
Plano, TX 75024

## Fiscal 2009 Sales Release Dates

Sales Period	Release Date
February 2009	March 5, 2009
March 2009	April 9, 2009
April 2009	May 7, 2009
May 2009	June 4, 2009
June 2009	July 9, 2009
July 2009	August 6, 2009
August 2009	September 3, 2009
September 2009	October 8, 2009
October 2009	November 5, 2009
November 2009	December 3, 2009
December 2009	January 7, 2010
January 2010	February 4, 2010

## Fiscal 2009 Earnings Release Dates

Quarter	Release Date
1st Quarter	May 15, 2009
2nd Quarter	August 14, 2009
3rd Quarter	November 13, 2009
4th Quarter	February 19, 2010

## Contact Information

J. C. Penney Company, Inc. 6501 Legacy Drive Plano, TX 75024 972-431-1000  
Shopping: [jcp.com](http://jcp.com) Company information: [jcpenney.net](http://jcpenney.net)  
Media Relations: 972-431-3400 [jcpcorpcomm@jcpenney.com](mailto:jcpcorpcomm@jcpenney.com)  
Investor Relations: Phillip Sanchez 972-431-5575 [psanc3@jcpenney.com](mailto:psanc3@jcpenney.com)  
Kristin Hays 972-431-1261 [klhays@jcpenney.com](mailto:klhays@jcpenney.com)

# Accelerate Maintain Moderate

## 10-K Report



### Mixed Sources

Product group from well-managed forests, controlled sources and recycled wood or fiber

[www.fsc.org](http://www.fsc.org) Cert no. BV-COC-070601  
© 1996 Forest Stewardship Council



# 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

