J C PENNEY CO INC
Form DEF 14A
April 04, 2007

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

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)

Filed by the Registrant þ
Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement
o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
þ Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to §240.14a-12

J. C. Penney Company, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

þ No fee required.
o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1) Title of each class of securities to which transaction applies:

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2) Aggregate number of securities to which transaction applies:

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1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

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Myron E. Ullman, III
Chairman of the Board
and Chief Executive Officer

April 17, 2007

Dear Stockholders:

On behalf of your Board of Directors and management, I invite you to attend JCPenney s Annual Meeting of Stockholders. The meeting will be held on Friday, May 18, 2007, at 10:00 A.M., local time, at JCPenney s Home Office located at 6501 Legacy Drive, Plano, Texas 75024.

You will find information regarding the matters to be voted on at the meeting in the formal Notice of Meeting and Proxy Statement which are included on the following pages of this booklet.

We appreciate your continued support of JCPenney.

Any stockholder having a disability requiring special assistance who would like to attend the Annual Meeting should call the Corporate Secretary of the Company at (972) 431-1000 and reasonable accommodations will be made to meet such stockholder s needs.

J. C. Penney Company, Inc. P.O. Box 10001 Dallas, TX 75301
Home Office 6501 Legacy Drive Plano, TX 75024-3698

J. C. PENNEY COMPANY, INC.
6501 Legacy Drive
Plano, Texas 75024-3698

J. C. PENNEY COMPANY, INC.

Notice of 2007 Annual Meeting of Stockholders

Date and Time:	Friday, May 18, 2007 10:00 A.M., local time
Place:	JCPenney Home Office 6501 Legacy Drive Plano, Texas 75024-3698
Business:	1. To elect four directors for a one-year term as described in the accompanying proxy materials; 2. To ratify the appointment of KPMG LLP as independent auditor for the fiscal year ending February 2, 2008; 3. To consider a stockholder proposal relating to stockholder approval of certain severance agreements; 4. To consider a stockholder proposal relating to adoption of a majority vote standard for the election of directors; and 5. To consider any other business properly brought before the meeting.
Record Date:	In order to vote, you must have been a stockholder at the close of business on March 19, 2007.
Voting By Proxy:	It is important that your shares be represented and voted at the meeting. You can vote your shares by completing, signing, dating, and returning your proxy card. You can also vote your shares on the Internet or by telephone. To vote by Internet or telephone, follow the instructions included with your proxy card. You can revoke a proxy at any time prior to its exercise at the meeting by following the instructions in the proxy statement.

Joanne L. Bober, Secretary

Plano, Texas
April 17, 2007

YOUR VOTE IS IMPORTANT
PLEASE SIGN, DATE, & RETURN YOUR PROXY CARD OR
VOTE BY TELEPHONE OR INTERNET

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2007 PROXY STATEMENT

This proxy statement and the accompanying proxy card are being mailed to JCPenney stockholders beginning on or about April 17, 2007. In this proxy statement, you will find information on the matters to be presented at the Annual Meeting and information to assist you in voting your shares.

ABOUT THE ANNUAL MEETING

Who is soliciting my vote?

JCPenney s Board of Directors is soliciting your vote at the 2007 Annual Meeting of Stockholders.

What will I be voting on?

You will be voting on:

- Election of directors;
- Ratification of the appointment of KPMG LLP as JCPenney s independent auditor for the fiscal year ending February 2, 2008;
- Two stockholder proposals as described later in this proxy statement; and
- Any other business that may properly come before the meeting.

Who is entitled to vote?

All stockholders who owned JCPenney common stock at the close of business on the record date, March 19, 2007, are entitled to attend and vote at the Annual Meeting.

How many votes do I have?

You will have one vote for every share of JCPenney common stock you owned on the record date.

How many votes can be cast by all stockholders?

Each share of JCPenney common stock is entitled to one vote. There is no cumulative voting. On March 19, 2007, JCPenney had 225,793,408 shares of common stock outstanding and entitled to vote.

How many votes must be present to hold the Annual Meeting?

A majority of the outstanding shares of JCPenney common stock as of the record date, or 112,896,705 shares, must be present at the Annual Meeting in order to hold the meeting and conduct business. This is called a quorum. Shares are counted as present at the Annual Meeting if stockholders are present and vote in person or a proxy card has been properly submitted by or on behalf of stockholders. Abstentions and broker non-votes are counted only for purposes of determining the presence of a quorum.

How many votes are required to elect directors and adopt the other proposals?

Directors are elected by a plurality of the votes cast. You may vote for or withheld with respect to the election of directors. If you withhold authority to vote for some or all of the nominees, your shares will not be voted with respect to those nominees. Our Bylaws provide, however, that in a non-contested election, any nominee for director who receives a greater number of votes withheld from his or her election than votes for such election must promptly tender his or her resignation, and the Board of Directors, excluding the director who tenders his or her resignation, must promptly decide whether to accept or reject the resignation. Absent a compelling reason for the director to remain on the Board, as determined by the other directors in the exercise of their business judgment, the Board shall accept the resignation. The Company will promptly and publicly disclose the Board s decision, together with an explanation of how the decision was reached.

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Ratification of the appointment of KPMG LLP as JCPenney s independent auditor and the stockholder proposals each requires the affirmative vote of a majority of the shares of JCPenney common stock outstanding as of the record date to be approved. If you abstain from voting on these matters, your shares will be counted as present for purposes of establishing a quorum, and the abstention will have the same effect as a vote *against* that proposal. Broker non-votes will also have the same effect as a vote *against* that proposal.

How do I vote?

You can vote either in person at the Annual Meeting or by proxy whether or not you attend the Annual Meeting. You can vote by proxy in three ways:

By Internet You can vote by Internet by following the instructions on your proxy card;

By Telephone In the United States and Canada, you can vote by telephone by following the instructions on your proxy card; and

By Mail You can vote by mail by using the enclosed proxy card.

If you vote by proxy, your shares will be voted at the Annual Meeting in the manner you indicate. If you sign your proxy card, but don t specify how you want your shares to be voted, they will be voted as the Board of Directors recommends.

Can I change my vote after I return my proxy card?

You can revoke a proxy at any time prior to its exercise at the Annual Meeting. You can send in a new proxy card with a later date, or cast a new vote by telephone or Internet, or send a written notice of revocation to JCPenney s Corporate Secretary at the address on the cover page of this proxy statement. If you attend the Annual Meeting and want to vote in person, you can request that any previously submitted proxy not be used.

How do I vote my shares of JCPenney common stock in the Savings Plan?

If you are a participant in the J. C. Penney Corporation, Inc. Savings, Profit-Sharing and Stock Ownership Plan (the Savings Plan), you will receive a separate voting instruction card for the shares allocated to your account in the plan. This voting instruction card will allow you to instruct State Street Bank and Trust Company, as trustee for the Savings Plan, how to vote your shares. If you do not vote your shares in the Savings Plan, State Street Bank and Trust Company will vote them in the same proportion as those shares for which it has received voting instructions.

Who pays for this proxy solicitation?

JCPenney does. In addition to soliciting proxies by mail, JCPenney may solicit proxies by telephone, personal contact, and electronic means. No director, officer, or employee of JCPenney will be specially compensated for these activities. JCPenney has hired Morrow & Co., Inc., a proxy solicitation firm, to assist in soliciting proxies for an estimated fee of $25,000 plus reimbursement for reasonable expenses.

JCPenney will also reimburse brokers, fiduciaries, and custodians for their costs in forwarding proxy materials to beneficial owners of JCPenney common stock.

Could other matters be decided at the Annual Meeting?

We do not know of any other matters that will be considered at the Annual Meeting. If any matter other than those described in this proxy statement arises at the Annual Meeting, the proxies will be voted at the discretion of the proxy holder.

How can I access JCPenney s proxy materials and annual report electronically?

You can access JCPenney s proxy statement, 2006 Annual Report on Form 10-K, and Summary Annual Report to Stockholders at www.jcpenney.net. Click on Investor Relations, then Financial Archives or SEC Filings to access these documents. You may also obtain free copies of these documents by sending a

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written request to JCPenney s Corporate Secretary at P.O. Box 10001, Dallas, Texas 75301. The Summary Annual Report and the Form 10-K accompany this proxy statement and proxy card but are not considered part of the proxy soliciting materials.

Will my vote be kept confidential?

Yes. JCPenney s policy is that all proxy or voting instruction cards, ballots, and vote tabulations which identify the vote of an individual stockholder are to be kept secret. Your vote will only be disclosed:

- To allow the independent election inspectors to certify the results of the vote;
- If JCPenney is legally required to disclose your vote or is defending or asserting claims in a lawsuit;
- If there is a proxy contest involving the Company; or
- If you make a written comment on your proxy or voting instruction card or ballot.

CORPORATE GOVERNANCE

For more than 100 years, JCPenney has been serving American consumers by building our business on timeless values. That is our history. That is our future. Since James Cash Penney opened his first Golden Rule Store in 1902, our goal has been to serve the public, as nearly as we can, to its complete satisfaction. Building on this heritage, in 2005 we adopted our WINNING TOGETHER principles, which are set forth on the outside back cover of this proxy statement and include valuing, developing, and rewarding the contributions of all associates; acting only with the highest ethical standards; achieving excellence in our work, products, and services; and caring about and being involved in our communities. We do this for our customers and our stockholders.

Governing Documents

The key documents that make up our corporate governance framework are our:

- Corporate Governance Guidelines, including our Standards for the Determination of Director Independence and our Policy on Review and Consideration of Related Person Transactions;
- Restated Certificate of Incorporation, as amended;
- Bylaws, as amended;
- Audit Committee Charter;
- Corporate Governance Committee Charter;
- Human Resources and Compensation Committee Charter;
- Charter of the Committee of the Whole;
- Statement of Business Ethics; and
- Standards and Procedures for Director Nominations.

You can access each of these documents on our website at www.jcpenney.net by clicking on Investor Relations, then Corporate Governance. You can also obtain a free copy of any of these documents by sending a written request to JCPenney s Corporate Secretary at P.O. Box 10001, Dallas, Texas 75301.

Corporate Governance Guidelines

This document sets forth the Company s primary principles and policies regarding corporate governance, which are the foundation of our commitment to best practices. You can access our Corporate Governance Guidelines at www.jcpenney.net. The Guidelines are reviewed annually by the Corporate Governance Committee and the Board. The matters covered by the Guidelines include:

- director responsibilities;
- the size of the Board;

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- director independence and minimum qualifications;
- factors to be considered in selecting candidates to serve on the Board;
- the Board s policy regarding the election of directors;
- director retirement;
- director resignations upon change of principal employment;
- directors outside directorships and outside audit committee service;
- Board committees;
- policies relating to Board meetings;
- executive sessions for directors;
- ethical principles to be followed by directors;
- policies and procedures for reviewing related person transactions and conflicts of interest;
- policy on recovery of compensation in the event of a financial restatement;
- the Board s access to management and independent advisors;
- stockholders and other interested parties communications to non-employee directors;
- director orientation and continuing education;
- prohibition of loans to directors and executive officers;
- stock ownership goals for directors and members of the Company s senior management team;
- management succession and CEO evaluation; and
- annual self-assessments of the Board and each of the Audit, Corporate Governance, and Human Resources and Compensation Committees.

Policies and Procedures with Respect to Related Person Transactions

The Board of Directors recognizes that related person transactions can present a heightened risk of conflicts of interest. Accordingly, as a general matter, our directors and executive officers are to avoid any activity, interest, or relationship that would create, or might appear to others to create, a conflict with the interests of JCPenney.

Our written Policy on Review and Consideration of Related Person Transactions (Policy) is included as Appendix B to our Corporate Governance Guidelines. For purposes of current SEC rules as well as our Policy, a related person transaction is any transaction in which the Company was, is or will be a participant and the amount involved exceeds

$120,000 and in which any related person had, has or will have a direct or indirect material interest. The term related person means (a) any person who is, or at any time since the beginning of the Company s last fiscal year was, a director or executive officer of the Company or a nominee to become a director of the Company, (b) any person who is known to be the beneficial owner of more than 5% of any class of the Company s voting securities, and (c) any immediate family member of any of the foregoing persons. We review all relationships and transactions in which the Company and a related person are participants to determine whether such persons have a direct or indirect material interest. To identify potential related person transactions, under our Policy, we request certain information from our directors and executive officers. We then review the information provided for any related person transactions. The Corporate Governance Committee reviews and approves or ratifies any related person transaction that is required to be disclosed. As required under SEC rules, transactions that are determined to be directly or indirectly material to the Company or a related person will be disclosed in the Company s proxy statement. Any member of the Corporate Governance Committee who is a related person with respect to a transaction under review may not participate in the deliberations or vote respecting approval or ratification of the transaction.

Board Independence

The Board reviews the independence of each non-employee director annually to confirm that the director continues to meet our standards as well as the requirements of the New York Stock Exchange. No member

of the Board will be considered independent unless the Board determines that he or she has no material relationship with the Company that would affect his or her independence and that he or she otherwise satisfies JCPenney s director independence standards as well as all applicable laws, rules and regulations. Our Standards for the Determination of Director Independence are included as Appendix A to our Corporate Governance Guidelines, which can be accessed at www.jcpenney.net.

The factors the Board considers in determining whether a director is independent include:

Is or was the director an employee of JCPenney?;

Is or was a member of the director s immediate family an executive officer of JCPenney?;

Has the director or a member of his or her immediate family:

received more than $100,000 in direct compensation from JCPenney (other than director s fees or deferred compensation for prior service)?;

been employed by KPMG LLP, our independent auditor?;

been employed by another company at the same time that one of our executive officers served on the compensation committee of the other company s board of directors?;

been employed by another company that makes payments to, or receives payments from, JCPenney in excess of the greater of $1,000,000 or 2% of that company s consolidated gross revenues?; and

Does the director serve as an officer, director or trustee of a charitable organization or as a member of that organization s fund-raising entity or committee that received contributions from JCPenney in excess of the greater of $1,000,000 or 2% of the charity s gross revenues?

The Board has reviewed each director s independence for fiscal 2007. Applying the standards listed above as well as the requirements of the New York Stock Exchange and all other relevant considerations, the Board has determined that each of the directors, except for Myron E. Ullman, III, the Company s Chairman and Chief Executive Officer, is independent.

Meeting Attendance

During fiscal 2006, the Board held eight meetings and committees of the Board held a total of 26 meetings. Each director, except for R. Gerald Turner, attended at least 75% of the total number of meetings of the Board and committees on which he or she served. The Board currently has seven meetings scheduled for fiscal 2007.

All directors are strongly encouraged to attend the Annual Meeting, but we do not have a formal attendance requirement. In 2006, 11 of the 12 members of the Board attended the Annual Meeting.

Executive Sessions

The non-employee, independent directors meet in executive session with no Company associates present as a part of each regularly scheduled Board meeting. The presiding director of these sessions is currently Maxine K. Clark, whose one-year term as presiding director expires on May 19, 2007. The non-employee, independent directors will select the next director to serve as presiding director upon expiration of Ms. Clark s term.

Communications with the Board of Directors

Any Company stockholder or other interested party who wishes to communicate with the Board of Directors or with an individual director may direct such communications by telephone to 1-800-544-1635, by facsimile to 972-431-1977, by email to jcpdirectors@jcpenney.com, or by writing to:

Corporate Secretary
J. C. Penney Company, Inc.
P.O. Box 10001
Dallas, TX 75301

The communication must be clearly addressed to the Board of Directors or to a specific director(s). If a response is desired, the individual should also provide contact information such as name, address and telephone number.

All such communications will be reviewed initially by the Company s Corporate Secretary and entered into a log for tracking purposes. The Board has asked the Corporate Secretary to forward to the appropriate director(s) all correspondence, except for items unrelated to the Board s functions, business solicitations, advertisements, and materials that are profane. The Corporate Secretary prepares a periodic summary report of all such communications for the Corporate Governance Committee of the Board.

Communications with the Audit Committee

Complaints and concerns relating to the Company s accounting, internal accounting controls or auditing matters should be communicated to the Audit Committee of the Board of Directors. Any such communication may be made on an anonymous basis and may be reported to the Audit Committee through the Company s Director of Auditing by calling 1-800-544-1635 or writing to:

Director of Auditing
J. C. Penney Company, Inc.
P.O. Box 259017
Dallas, TX 75025-9017

All such concerns will be reviewed under the direction of the Audit Committee and oversight by the Director of Auditing, General Counsel, or such other persons as the Audit Committee determines to be appropriate. Confidentiality is maintained to the fullest extent possible, consistent with the need to conduct an adequate review. Prompt and appropriate corrective action will be taken when and as deemed appropriate in the judgment of the Audit Committee. The Director of Auditing will prepare a periodic summary report of all such communications for the Audit Committee.

Director Nominee Qualifications and Process

Our process for nominating candidates for election to the Board is designed to identify and recruit high caliber individuals to serve on our Board. Although the Board retains ultimate responsibility for approving candidates for election, the Corporate Governance Committee conducts the initial screening and evaluation process. In doing so, the Corporate Governance Committee considers candidates recommended by directors and the Company s management, as well as any recommendations from Company stockholders. The Corporate Governance Committee has engaged in the past, and expects to continue to engage, one or more search firms to assist in the identification and recruitment of director candidates.

As provided in the Company s Corporate Governance Guidelines, nominees for director will be selected based on, among other things, consideration of the following factors:

- character and integrity;
- business and management experience;
- demonstrated competence in dealing with complex problems;
- familiarity with the Company s business;

diverse talents, backgrounds, and perspectives;

freedom from conflicts of interest;

regulatory and stock exchange membership requirements for the Board;

sufficient time to devote to the affairs of the Company; and

reputation in the business community.

In connection with the selection of nominees for director, due consideration is given to the Board s overall balance of diversity of perspectives, backgrounds and experiences. The Corporate Governance

Committee takes into account the current composition and capabilities of serving Board members, as well as additional capabilities considered necessary or desirable in light of existing Company needs.

In considering whether to nominate directors who are eligible to stand for re-election, the Committee considers the quality of past director service, attendance at Board and committee meetings, compliance with the Company s Corporate Governance Guidelines (including satisfying the expectations for individual directors), as well as whether the director continues to possess the qualities and capabilities considered necessary or desirable for director service, input from other Board members concerning the performance of that director, and the independence of the director.

To recommend a candidate for election to the Board, a stockholder must submit the following information to the Corporate Secretary of the Company at least 90 days in advance of the Annual Meeting:

The stockholder s name and address;

A representation that the stockholder is a holder of record and intends to appear in person or by proxy at the Annual Meeting;

The name and address of the stockholder s nominee for director;

A description of any arrangements or understandings between the stockholder and the director nominee or any other person (naming such person(s)) relating to the election of the nominee to the Board;

The biographical and other information about the nominee that would be required to be included in a proxy statement filed pursuant to the proxy rules of the SEC; and

The nominee s consent to serve on the Board.

In general, candidates recommended by stockholders will be evaluated under the same process as candidates recommended by existing directors, Company management or third-party search firms. However, the Corporate Governance Committee will additionally seek and consider information concerning the relationship between a stockholder s recommended nominee and the stockholder to determine whether the nominee can effectively represent the interests of all stockholders. Also, except in unusual circumstances, the Corporate Governance Committee will not evaluate a stockholder-recommended candidate unless and until the stockholder advises that the potential candidate has indicated a willingness to serve as a director, to comply with the expectations and requirements for Board service and to provide all of the information required to conduct an evaluation.

BOARD COMMITTEES

The Board of Directors has four principal standing committees. Committee members consist entirely of non-employee directors and the Board has determined that each of the members of these committees is independent, as defined under our standards of independence and under NYSE listing standards. In addition, the Board has created a committee, consisting solely of all non-employee, independent directors (the Committee of the Whole), to discharge its responsibilities with respect to setting performance objectives, evaluating the performance, and setting the compensation of the Company s Chief Executive Officer (CEO).

Audit Committee

The Audit Committee s responsibilities include the selection and retention of the independent auditor for the annual audit of the Company s consolidated financial statements and the approval of audit fees and non-audit services and fees

paid to the independent auditor. The Committee reviews the independent auditor s strategy and plan, scope, audit results, performance and independence, internal audit reports on the adequacy of internal controls, the Company s ethics program, status of significant legal matters, the scope of the internal auditor s plans and budget and results of its audits, and the effectiveness of the Company s program for correcting audit findings. The Committee also participates in the certification process relating to the filing of certain periodic reports pursuant to the Securities Exchange Act of 1934, as amended. A copy of the Audit Committee s Charter is available at the Company s website, www.jcpenney.net. Also available on the

Company s website are procedures for the confidential and anonymous reporting of matters relating to questionable accounting, internal accounting controls, or auditing matters.

During fiscal 2006, this Committee held seven meetings. Its current members are M. Anthony Burns, Thomas J. Engibous, Leonard H. Roberts, Mary Beth West, and Kent B. Foster, who serves as its Chair. The Board of Directors has determined that both Mr. Foster and Mr. Burns qualify as audit committee financial experts and each member of this Committee is financially literate, as those terms are defined by the Securities Exchange Act of 1934, as amended, and the NYSE.

Corporate Governance Committee

The Corporate Governance Committee performs the functions of a nominating committee, considers matters of corporate governance and reviews developments in the governance area as they affect relations between the Company and its stockholders. It also develops and recommends to the Board corporate governance principles and practices for the Company and makes recommendations to the Board with respect to the size, composition, organization, responsibilities and functions of the Board and its directors, the qualifications of directors, candidates for election as directors, the compensation of directors, annual independence determinations, and the annual performance self-assessment process by the Board and each of the Audit, Corporate Governance, and Human Resources and Compensation Committees. A copy of the Corporate Governance Committee s Charter, the Company s Corporate Governance Guidelines, and Standards and Procedures for Director Nominations are available on the Company s website at www.jcpenney.net.

During fiscal 2006, this Committee met five times. Its current members are Colleen C. Barrett, Vernon E. Jordan, Jr., Burl Osborne, Ann Marie Tallman, R. Gerald Turner, and Maxine K. Clark, who serves as its Chair.

Finance Committee

The Finance Committee is responsible for reviewing the Company s financial policies, strategies, and capital structure. A copy of the Company s Finance Committee Charter is available on the Company s website at www.jcpenney.net.

During fiscal 2006, this Committee met four times. Its current members are M. Anthony Burns, Kent B. Foster, Leonard H. Roberts, Mary Beth West, and Thomas J. Engibous, who serves as its Chair.

Human Resources and Compensation Committee

The Human Resources and Compensation Committee s responsibilities include reviewing and administering the Company s annual and long-term incentive compensation plans, overseeing the administration and operation of certain of the Company s retirement and welfare plans, taking action or making recommendations with respect to the compensation of executive officers, including making a non-binding recommendation to the Committee of the Whole regarding the CEO s compensation level, and reviewing succession plans for key Company executives, including the CEO. In addition, its responsibilities include reviewing the annual financial and investment performance results of the Company s retirement and welfare plans, including the annual actuarial valuation reports applicable to such plans. A copy of the Human Resources and Compensation Committee s Charter is available on the Company s website at www.jcpenney.net and is included as Annex A to this proxy statement. See also this Committee s report on page 34. For a discussion of the processes and procedures for determining executive and director compensation and the roles of management and compensation consultants in determining or recommending the amount or form of compensation, see Compensation Discussion and Analysis beginning on page 15 and Director Compensation for Fiscal 2006 beginning on page 70.

During fiscal 2006, this Committee met ten times. Its current members are Colleen C. Barrett, M. Anthony Burns, Maxine K. Clark, R. Gerald Turner, and Burl Osborne, who serves as its Chair.

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Committee of the Whole

The Committee of the Whole assists the Board in discharging its responsibilities relating to the setting of performance goals and objectives, the evaluation of performance in light of those goals and objectives, and the setting of compensation for the Company s CEO. A copy of the Committee of the Whole s Charter is available on the Company s website at www.jcpenney.net and is included as Annex B to this proxy statement. See also Compensation Discussion and Analysis beginning on page 15.

This Committee was formed by the Board in February 2007. The Committee is composed solely of the independent members of the Board. Its current members are Colleen C. Barrett, M. Anthony Burns, Thomas J. Engibous, Kent B. Foster, Vernon E. Jordan, Jr., Burl Osborne, Leonard H. Roberts, Ann Marie Tallman, R. Gerald Turner, Mary Beth West, and Maxine K. Clark, who serves as its Chair.

The mailing address for all of these committees is c/o Joanne L. Bober, Corporate Secretary, J. C. Penney Company, Inc., P.O. Box 10001, Dallas, Texas 75301.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The Human Resources and Compensation Committee and Committee of the Whole are each composed entirely of persons who are neither associates nor former or current officers of the Company. There is not, nor was there during fiscal 2006, any compensation committee interlock or insider participation on the Human Resources and Compensation Committee or the Committee of the Whole.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires JCPenney s directors and officers and persons who beneficially own more than ten percent of a registered class of the Company s equity securities to file initial reports of ownership and reports of changes in ownership with the SEC. The Company assists its directors and officers by monitoring transactions and completing and filing Section 16 reports on their behalf. Due to administrative errors, in each of fiscal 2005 and 2006, one transaction involving Maxine K. Clark, a director, was not timely reported on Form 4. The transactions were subsequently reported on a Form 5 filed on March 16, 2007.

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BENEFICIAL OWNERSHIP OF COMMON STOCK

The following table shows, as of March 19, 2007, the beneficial ownership of shares of JCPenney common stock by (a) each stockholder known to the Company to beneficially own more than 5% of JCPenney common stock, (b) each present director, including the present directors being considered for election at the Annual Meeting, (c) the five most highly compensated present executive officers serving during the last fiscal year and one former executive officer who also is deemed to be a named executive officer, and (d) all present directors and executive officers of the Company as a group. Beneficial ownership means that the individual has or shares voting power or investment power with respect to the shares of common stock or the individual has the right to acquire the shares of common stock within 60 days of March 19, 2007.

Name	Number of shares beneficially owned	Number of shares included in previous column which the individual or group has/have the right to acquire within 60 days of March 19, 2007	Percent of outstanding common stock[1]
FMR Corp.	12,220,971(2)		5.4%
J. C. Penney Corporation, Inc. Savings, Profit-Sharing and Stock Ownership Plan	20,241,090(3)		9.0%
State Street Bank and Trust Company	30,853,851(4)		13.7%
Directors[5]:			
Colleen C. Barrett	7,328	3,118	*
M. Anthony Burns	28,938(6)	11,918	*
Maxine K. Clark	10,370	3,118	*
Thomas J. Engibous	28,541	3,118	*
Kent B. Foster	16,981(7)	3,118	*
Vernon E. Jordan, Jr.	34,582	15,118	*
Burl Osborne	14,528	3,118	*
Leonard H. Roberts	24,187	3,118	*
Ann Marie Tallman	1,621	1,621	*
R. Gerald Turner	23,946(8)	4,718	*
Myron E. Ullman, III	246,131	95,636	*
Mary Beth West	2,377	2,377	*
Named Executive Officers[5][9]:			
Joanne L. Bober	73,054	57,916	*
Robert B. Cavanaugh	165,590	160,230	*
Ken C. Hicks	151,217	121,314	*
Michael T. Theilmann	46,702	39,272	*
Catherine G. West	317,285(10)	269,929	*
	967,256	602,889	*

All present directors and executive officers as a group(5)(6)(11)

* Less than 1%.

(1) Calculated based on Rule 13d-3(d)(i) using the number of outstanding shares of common stock as of March 19, 2007.

(2) Based on information set forth in a Schedule 13G filed with the SEC on February 14, 2007 by FMR Corp. and certain related individuals and entities reporting sole power to vote or direct the vote of 4,990,769 shares of JCPenney common stock and sole power to dispose or direct the disposition of 12,220,971 shares of JCPenney common stock. The address of FMR Corp. is 82 Devonshire Street, Boston, Massachusetts 02109. FMR Corp., through its subsidiaries, provides certain administrative services for the Company s stock plans and fund management services for the Company s pension plan, and certain investment funds of Fidelity Investments are offered in the J. C. Penney Corporation, Inc. Savings, Profit-Sharing and Stock Ownership Plan (the Savings Plan).

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(3) The trust maintained under the Savings Plan holds these shares. The address for the Savings Plan is 6501 Legacy Drive, Plano, Texas 75024. The trustee for the Savings Plan trust is State Street Bank and Trust Company, whose address is 225 Franklin Street, Boston, Massachusetts 02110.

(4) Based on information set forth in a Schedule 13G filed with the SEC on February 12, 2007 by State Street Bank and Trust Company, acting in various fiduciary capacities, reporting sole power to vote or direct the vote of 8,923,288 shares of JCPenney common stock, shared power to vote or direct the vote of 21,930,563 shares of JCPenney common stock and shared power to dispose or direct the disposition of 30,853,851 shares of JCPenney common stock, which includes shares of JCPenney common stock held in trust under the Savings Plan. The address of State Street Bank and Trust Company is 225 Franklin Street, Boston, Massachusetts 02110. State Street Bank and Trust Company also provides certain trustee and custodial services for the Company s pension plan and serves as a lending bank under the credit facility to which the Company and its wholly owned subsidiary, J. C. Penney Corporation, Inc., are parties.

(5) Except as set forth in the footnotes below, each person has sole investment and voting power with respect to the common stock beneficially owned by such person. Includes only those stock options that are exercisable or become exercisable within 60 days of March 19, 2007. Does not include restricted stock units that will not vest within 60 days of March 19, 2007.

(6) Includes 2,000 shares of JCPenney common stock pledged as partial collateral for a loan.

(7) Includes 337 shares of JCPenney common stock with respect to which Mr. Foster shares voting and investment power.

(8) Includes 1,532 shares of JCPenney common stock that Mr. Turner holds under the Company s Dividend Reinvestment Plan with respect to which he shares voting and investment power.

(9) In addition to Mr. Ullman, who also serves as a director.

(10) Stock ownership for Catherine G. West reflects her direct holdings as of December 28, 2006, the date on which her employment with the Company was terminated, along with options exercisable within 60 days of such date.

(11) Excludes shares of Catherine G. West, who was terminated on December 28, 2006.

PROPOSAL 1

ELECTION OF DIRECTORS

The Board of Directors is currently divided into three classes, which are as equal in number as possible depending on the total number of directors at any time. Effective May 19, 2006, the stockholders approved amendments to Article Sixth of the Company s Restated Certificate of Incorporation (Charter) and Article III, Sections 3 and 13, of the Company s Bylaws (Bylaws), to eliminate the classification of the Board. The declassified Board structure will be phased in as follows:

Current directors, including those previously elected to three-year terms at the Company s 2006 Annual Meeting, will continue to serve the remainder of their elected terms; and

Beginning with this year s Annual Meeting, directors will be elected annually so that by the 2009 Annual Meeting of Stockholders, all directors will be elected annually.

The terms of Colleen C. Barrett, M. Anthony Burns, Maxine K. Clark and Ann Marie Tallman will expire at the 2007 Annual Meeting. Each of these individuals is currently a director of the Company and has been nominated by the Board of Directors to serve as a continuing director for a new one-year term expiring at the 2008 Annual Meeting. Other directors will continue in office, in accordance with their previous election, until the expirations of the terms of their class at the 2008 or 2009 Annual Meetings of Stockholders, as the case may be. In accordance with the retirement age for directors, as set forth in the Company s Bylaws, Vernon E. Jordan, Jr. will retire as a Company director upon attaining age 72 on August 15, 2007.

Directors are elected by a plurality of the votes cast. Our Bylaws provide, however, that in a non-contested election, any nominee for director who receives a greater number of votes withheld from his or her election than votes for such election must promptly tender his or her resignation, and the Board of Directors, excluding the director who tenders his or her resignation, must promptly decide whether to accept or reject the resignation. Absent a compelling reason for the director to remain on the Board, as determined by the other directors in the exercise of their business judgment, the Board shall accept the resignation. The Company will promptly and publicly disclose the Board s decision, together with an explanation of how the decision was reached.

Each nominee elected as a director will continue in office until his or her successor has been elected and qualified, or until his or her earlier death, resignation or retirement.

We are not aware of any reason why any of these nominees would not accept the nomination. However, if any of the nominees does not accept the nomination, or is otherwise unavailable for election, the persons designated as proxies will vote for any substitute nominee recommended by the Board.

The Board recommends a vote FOR each of the nominees for director.

Nominees for Director

Colleen C. Barrett, 62
President and Director since 2001, Chief Operating Officer from 2001 to 2004 and Corporate Secretary since 1978 of Southwest Airlines Co., with which she has served in positions of

increasing importance since 1978, including Executive Vice President-Customers from 1990 to 2001 and Vice President-Administration from 1986 to 1990.
Director of the Company since 2004.

M. Anthony Burns, 64
Chairman Emeritus since 2002, Chairman of the Board from 1985 to 2002, Chief Executive Officer from 1983 to 2000, and a director from 1979 to 2002 of Ryder System, Inc. (a provider of transportation and logistics services), with which he served in positions of increasing importance since 1974, including its President from 1979 to 1999; Director of Pfizer, Inc. and The Black & Decker Corporation; Life Trustee of the University of Miami.
Director of the Company since 1988.

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Maxine K. Clark, 58
Founder and Chief Executive Officer of Build-A-Bear Workshop, Inc., an operator of interactive children s entertainment retail stores, since 1996; President and Chief Merchandising Officer of Payless ShoeSource, Inc., from 1992 until 1996; Executive Vice President for Venture Stores, Inc., from 1988 until 1992; Member of the Board of Trustees of the University of Georgia, Washington University, and the International Council of Shopping Centers; Chair of Teach for America, St. Louis and the Simon Youth Foundation.
Director of the Company since 2003.

Ann Marie Tallman, 43
Founder and Partner of Tallman Homes, LLC since 2006; President and General Counsel of the Mexican American Legal Defense and Educational Fund, a national Latino civil rights and public policy advocacy organization from 2004 to 2006; Senior Vice President of Fannie Mae s Western Business Center from 1999 until 2004; Various positions including Chief Operating Officer and President and Chief Executive Officer of the Fannie Mae Foundation from 1994 until 1999; Member of the Trusteeship, California Chapter of the International Women s Forum.
Director of the Company since May 2006.

Term Expiring 2008

Thomas J. Engibous, 54
Chairman of the Board since 1998, Director since 1996 and President and Chief Executive Officer from 1996 to 2004, of Texas Instruments Incorporated (electronics), with which he has served in positions of increasing importance since 1976, including as an Executive Vice President from 1993 to 1996; Chairman Emeritus and Member of the Board of Catalyst; Trustee of Southern Methodist University; Member of The Business Council; Member of the National Academy of Engineering.
Director of the Company since 1999.

Kent B. Foster, 63
Chairman of the Board and a Director since 2000, and Chief Executive Officer from 2000 to 2005, of Ingram Micro Inc. (wholesale distributor of technology); President of GTE Corporation (telecommunications) from 1995 to 1999; Vice Chairman of the Board of Directors of GTE Corporation from 1993 to 1995; President of GTE Telephone Operations Group from 1989 to 1995; Director of Campbell Soup Company and New York Life Insurance Company.
Director of the Company since 1998.

Leonard H. Roberts, 58
Retired Chairman and Chief Executive Officer of RadioShack Corporation (consumer electronics), with which he served as Executive Chairman of the Board from 2005 to 2006, Chairman of the Board and Chief Executive Officer from 1999 to 2005, President from 1993 to 2000, and a Director from 1997 to 2006; Chairman and Chief Executive Officer of Shoney s, Inc. (restaurants) from 1990 to 1993; President and Chief Executive Officer of Arby s, Inc. from 1985 to 1990; Chairman of Students in Free Enterprise; Member of the Board of Trustees of Texas Christian University; Member of the Executive Board of the National Center for Missing and Exploited Children; Member of the Executive Board of the United Way of America;

Director of Texas Health Resources, TXU Corporation and Rent-A-Center, Inc.
Director of the Company since 2002.

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Myron E. Ullman, III, 60
Chairman of the Board and Chief Executive Officer of the Company since December 2004; Directeur General, Group Managing Director, LVMH Moët Hennessy Louis Vuitton (luxury goods manufacturer/retailer) from 1999 to 2002; President of LVMH Selective Retail Group from 1998 to 1999; Chairman of the Board and Chief Executive Officer, DFS Group Ltd. from 1995 to 1998; Chairman of the Board and Chief Executive Officer of R. H. Macy & Company, Inc. from 1992 to 1995; Director of Starbucks Coffee Company; Chairman of the Board of Mercy Ships International.
Director of the Company since December 2004.

Term Expiring 2009

Vernon E. Jordan, Jr., 71
Senior Managing Director of Lazard Freres & Co., LLC (investment banking firm); Of Counsel since 2000, Senior Partner from 1992 to 1999 and Partner from 1982 to 1992, law firm of Akin, Gump, Strauss, Hauer & Feld, LLP; President from 1977 to 1981 and Executive Director from 1972 to 1977 of the National Urban League; Director of American Express Company, Asbury Automotive Group, Inc., Lazard, Ltd., LBJ Foundation, and Xerox Corporation; Advisor, International Advisory Board of Barrick Gold; Trustee of Howard University.
Director of the Company since 1973.

Burl Osborne, 69
Chairman of the Board since 2002, Director since 1993 and member of the Executive Committee of The Associated Press; President, Publishing Division from 1995 to 2001 and Director from 1987 to 2002 of the Belo Corp.; Publisher Emeritus since 2001 and Publisher from 1991 to 2001 of The Dallas Morning News, with which he served in positions of increasing importance since 1980, including President and Editor from 1986 to 1991; Trustee and Former Chairman of the Belo Foundation; Former Director and Chairman of the Southern Newspaper Association; Former Director of the Newspaper Association of America; Director of Committee to Protect Journalists, and National Kidney Foundation.
Director of the Company since 2003.

R. Gerald Turner, 61
President of Southern Methodist University since 1995; Chancellor of the University of Mississippi from 1984 to 1995; Chairman, President s Commission, the National Collegiate Athletic Association, from 1991 to 1992; Director of Kronos Worldwide, Inc., American Beacon Funds, and First Broadcasting Corporation, LLP.
Director of the Company since 1995.

Mary Beth West, 44
Group Vice President and President, Kraft Foods North American Beverage Sector since 2006; Group Vice President and President, Kraft Foods North America Grocery Segment from 2004 to 2006; Senior Vice President and General Manager, Meals Division from 2001 to 2004; and Vice President, New Meals Division from 1999 to 2001 of Kraft Foods Inc. (branded foods and beverages) with which she has served in positions of increasing importance since 1986; Member of the Executive Leadership Council and Foundation.
Director of the Company since November 2005.

14

COMPENSATION DISCUSSION AND ANALYSIS

What are the Philosophy and Objectives of our Compensation Program?

Philosophy. Our compensation philosophy begins with The Penney Idea, which was adopted in 1913 and which includes the idea that we will reward men and women in our organization through participation in what the business produces. In 2005, we built on this heritage by creating the Company s 2005 2009 Long Range Plan and adopting our WINNING TOGETHER Principles, which are set forth on the outside back cover of this proxy statement.

The four key strategies of the 2005 2009 Long Range Plan consist of:

- Making an emotional connection with the JCPenney customer;
- Making JCPenney an easy and exciting place to shop;
- Making JCPenney a great place to work; and
- Making JCPenney a leader in performance and execution.

As part of achieving the strategy of making JCPenney a great place to work, we have established two key initiatives:

- Attracting, developing and retaining the best people in retail; and
- Creating and sustaining a customer focused culture.

Together, our 2005 2009 Long Range Plan and our WINNING TOGETHER Principles drive our business decisions, including the design and implementation of our compensation program.

Objectives. Accordingly, our compensation program is structured to attract, develop and retain the best people in retail through the following objectives:

- The level of compensation for each position should be competitive based on the skill, knowledge, effort, and responsibility needed to perform the job successfully;
- A substantial portion of compensation should depend on our overall company financial performance; and
- Individual results should be rewarded by recognizing individual performance.

How Do We Set Executive Compensation?

Role of Management and the Human Resources and Compensation Committee. The Human Resources and Compensation Committee of the Board of Directors, all of the members of which are independent under the listing standards of the New York Stock Exchange, is responsible for establishing and implementing our executive compensation program. Management, consistent with our compensation philosophy and objectives, and working with its outside compensation consultant (Towers, Perrin, Forster & Crosby, Inc.), makes recommendations to the Committee regarding the design and implementation of our executive compensation program. The Committee determines compensation for each executive officer other than the Chief Executive Officer (CEO) based on the

compensation objectives outlined above. In evaluating management s recommendations, the Committee engages an independent consultant (James F. Reda and Associates, LLC) to assist in its deliberations and decision-making. This independent consultant reports directly to the Committee and neither he nor his firm work for the Company s management in any capacity.

As part of the Committee s deliberations, the CEO makes compensation recommendations for the executive officers other than himself, including the other executives named in the Summary Compensation Table (named executive officers). The Committee considers these recommendations along with other factors in evaluating individual performance against previously set individual objectives for each of the named executive officers. The independent directors of the Board review and evaluate the CEO s performance in relation to the performance objectives set for him at the beginning of the year. Based on such evaluation as well as market

data provided to the Committee by its consultant, the Committee makes a recommendation to the other independent directors of the Board regarding the CEO s compensation. The independent directors of the Board, including the members of the Committee, then make the final determination regarding the CEO s compensation.

In evaluating the performance of the CEO, Mr. Ullman, and determining his annual cash incentive compensation for 2006, the independent directors of the Board considered his effectiveness in executing the four key strategies of the Company s 2005 2009 Long Range Plan. In doing so, the directors focused on the following achievements for 2006:

Making JCPenney a leader in performance and execution:

The Company s total sales increased by $1,122 million or 6% over 2005.

Operating profit for 2006 improved by 100 basis points to 9.7% of sales.

The Company experienced a 16.1% increase in income from continuing operations in 2006.

Earnings per share from continuing operations increased $1.05 or 27.4% over 2005.

The Company s market capitalization increased by $5.8 billion, to reach $18.9 billion at the end of 2006.

Total stockholder return (defined as stock price appreciation and the reinvestment of dividends) in 2006 was 50% on top of 36% last year.

Making an emotional connection with the JCPenney customer:

The Company experienced an overall increase in customer satisfaction as measured by our customer scorecards.

The Company successfully launched a.n.a[tm], a modern women s casual brand that exceeded $300 million in sales in its first year.

The Company successfully negotiated the development of an exclusive lifestyle brand, American Living, with Polo Ralph Lauren s Global Brand Concepts.

Making JCPenney an easy and exciting place to shop:

JCPenney entered into a joint initiative with Sephora U.S.A., Inc. to provide an easy, exciting, and highly desirable beauty offering Inside JCPenney.

The Company opened 28 new stores in 2006, 23 of which were in the off-mall format.

The Company continued to grow its Internet business with sales of jcp.com increasing 24% over 2005. In addition, we enhanced the customer shopping experience by installing new point-of-sale technology in all of our stores, which enables the stores to link directly to the Internet.

Making JCPenney a great place to work:

The Company s associate engagement score, which measures the extent to which our associates are involved with, committed to, and enthusiastic about their work, increased 9% over 2005, based on results of our

annual engagement survey.

The Company made significant improvements to its benefit programs, enhancing their competitiveness, value, and affordability to both the Company and associates.

The Company introduced leadership development programs focused on preparing the next generation of leaders within the organization.

Based on this assessment and in light of comparable and competitive data for chief executive officers of a select group of peer companies, the independent directors of the Board determined that for 2007, Mr. Ullman s base salary of $1,500,000 should remain unchanged and his target incentive opportunity under the Company s

Management Incentive Compensation Program should increase from 100% of base salary to 125% of base salary. The independent directors of the Board further determined that Mr. Ullman s 2007 equity award value should be set at $8,000,000, to be delivered half in the form of performance-based restricted stock units and half as stock options under the Company s 2005 Equity Compensation Plan. Each of these programs is discussed in more detail later in this Compensation Discussion and Analysis.

Market Benchmarking. We compete against a broad array of companies for executive talent. Accordingly, each year we benchmark our base salary and annual and long-term incentive opportunities against selected peer companies.

For 2006, companies were selected to be in the peer groups based on their direct business, business strategy or size. Companies in the large general industry group were representative companies across a broad array of sectors who, when taken as a whole, had median revenues comparable to JCPenney. Companies in the retail/wholesale group represented a broad array of companies across the general industry sector within which we compete. Select retail companies were a subset of the broad retail/wholesale group and represented a select group of retailers having similar revenue and employee bases. The high brand value group represented a select group of retail and consumer goods companies recognized as leaders in growth and/or brand strategies. In 2006, all pay elements, including total compensation, were benchmarked relative to peer groups, which included:

Large general industrials companies across multiple industries with annual revenues of $10+ billion median revenue for this peer group was $19.9 billion; median market capitalization was $24.1 billion; and median total employees was 53,600;

Retail/Wholesale companies median revenue for this peer group was $4.2 billion; median market capitalization was $4.5 billion; and median total employees was 28,800;

Select retail companies retail organizations with annual revenues of $10+ billion that are comparable in terms of market capitalization and employee population median revenue for this peer group was $18.0 billion; median market capitalization was $18.5 billion; and median total employees was 123,650; and

High brand value companies retail and consumer goods companies with comparable annual revenues, market capitalization and employee population median revenue for this peer group was $11.3 billion; median market capitalization was $27.7 billion; and median total employees was 55,000.

The summary statistics listed above were compared to the Company at $18.4 billion revenue, $12.1 billion market capitalization and 151,000 employees.

We did not compare ourselves against specific companies within any one of the peer groups. Rather, comparisons were made against estimated market pay levels, represented by the median of each peer group.

The Committee was provided market pay data obtained by Towers Perrin for each of the peer groups. In setting the compensation of each named executive officer, the Committee made its own determination as to the relevance of data for each peer group, considering (i) the transferability of managerial skills, (ii) the relevance of the named executive officer s experience to other potential employers, and (iii) the readiness of the named executive officer to assume a different or more significant role either within the Company or with another organization.

For 2006, the peer groups used by the Committee comprised the following companies:

Large General Industrials:	Accenture	Anheuser-Busch

3M	Aetna	BP
7-Eleven	Alcoa	Bank of America
A&P	Allstate	BellSouth
AIG	Altria Group	Best Buy
ARAMARK	Amerada Hess	Boeing
AT&T	American Electric Power	Bristol-Myers Squibb
Abbott Laboratories	Amgen	Bunge

Burlington Northern Santa Fe
CHS
CIGNA
CVS Pharmacy
Capital One Financial
Cardinal Health
Caterpillar
Cendant
Chevron
Circuit City
Cisco Systems
Coca-Cola
Colgate-Palmolive
ConAgra Foods
ConocoPhillips
Constellation Energy
Costco Wholesale
Countrywide Financial
DIRECTV Group
Dell
Dominion Resources
Dow Chemical
DuPont
Duke Energy
EDS
Eastman Kodak
Edison International
Eli Lilly
Emerson Electric
Entergy
Exelon
ExxonMobil
FPL Group
Fannie Mae
FedEx
Federated Department Stores
First Data
FirstEnergy
Ford
Gap
General Dynamics
General Electric
General Mills
General Motors
Georgia-Pacific
Gillette
GlaxoSmithKline
Goodyear Tire & Rubber
International Paper
John Hancock
Johnson & Johnson
Johnson Controls
Kaiser
Kimberly-Clark
Kraft Foods
Lear
Lockheed Martin
Loews
MCI Inc.
Manpower
Marathon Oil
Marriott International
Masco
May Department Stores
McDonald s
McKesson
Medco Health Solutions
Merck
MetLife
Microsoft
Motorola
NIKE
Nextel Communications
Northrop Grumman
Northwestern Mutual
Novartis
Occidental Petroleum
Office Depot
Oracle
PACCAR
PacifiCare Health Systems
Pacific Gas & Electric
PepsiCo
Pfizer
Procter & Gamble
Progressive
Prudential Financial
Public Service Enterprise
Pulte Homes
Qwest
Raytheon
SBC Communications
Sanofi-Aventis
Sara Lee
Schlumberger
Sears Holding Corp
Textron
Time Warner
U.S. Bancorp
Union Pacific
United Airlines
United Parcel Service
United States Steel
United Technologies
UnitedHealth
UnumProvident
Valero Energy
Verizon
Verizon Wireless
Viacom
Visteon
Wachovia
Walt Disney
Washington Mutual
Wells Fargo
Weyerhaeuser
Xerox

Retail/Wholesale Companies:

24 Hour Fitness
7-Eleven
A&P
Ann Taylor Stores
Applebee s International
Best Buy Co., Inc.
Big Lots
Brown Shoe
Children s Place
Circle K
Circuit City
COACH
Columbia Sportswear
Costco Wholesale
CVS Pharmacy
Crown Castle
Darden Restaurants
Dick s Sporting Goods
Eddie Bauer
Federated Department Stores
FedEx Kinko s
Foot Locker
Gap
H&R Block
Hannaford
Harley-Davidson

HCA Healthcare
Hartford Financial Services
Health Care Services
Health Net
Hewlett-Packard
Home Depot
Honeywell
Humana
IBM
Intel

Shell Oil
Southern Company
Sprint
St. Paul Travelers
Staples
Sun Microsystems
Sunoco
Target
Tesoro
Texas Instruments

Home Depot
J. Crew
Kohler
L.L. Bean
Lands End
Levi Strauss
Limited
Longs Drug Stores
Linens n Things
May Department Stores

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Musicland Group
NIKE
Office Depot
Papa Johns
Phillips-Van Heusen
Polo Ralph Lauren
Raley s Superstores
Ross Stores
Sears
Sports Authority
Staples
Starbucks
Target
Tiffany
TruServ
United Rentals
United Stationers
Warnaco
Whole Foods Market
Williams-Sonoma
Zales

Select Retail Companies:

Best Buy Co., Inc.
Costco Wholesale Corp
CVS Corp
Federated Department Stores, Inc.
Gap, Inc. (The)
Home Depot Inc. (The)
Limited Brands Inc.
May Department Stores
Sears Holdings Corp
Staples Inc.
Target Corp

High Brand Value Companies:

Apple Computer Inc
Avon Products Inc.
Coca-Cola Co (The)
Colgate-Palmolive Co
Disney (Walt) Co
General Mills Inc.
Gillette Co
Kellogg Co
Kimberly-Clark Corp
Kraft Foods Inc.
Marriott International Inc.
McDonald s Corp
Nike Inc
PepsiCo Inc
Starbucks Corp
Starwood Hotels & Resorts Worldwide
Yum! Brands

As part of the annual review process, the Committee reviews the peer groups being used and the companies in the peer groups.

For 2007, the Committee has determined that the following companies will constitute the peer group for benchmarking purposes:

Apple Computer Inc
Best Buy Co., Inc.
Colgate-Palmolive Co
Costco Wholesale Corp
CVS Corp
Disney (Walt) Co
Federated Department Stores, Inc.
Gap, Inc. (The)
General Mills Inc.
Nike Inc
Home Depot Inc. (The)
Kellogg Co
Kimberly-Clark Corp
Kohl s Corp
Kraft Foods Inc
Limited Brands Inc..
Lowe s Cos Inc.
Marriott International Inc.
McDonald s Corp
PepsiCo Inc
Sears Holdings Corp
Staples Inc.
Starbucks Corp
Starwood Hotels & Resorts Worldwide
Target Corp
Walgreen Co

These companies represent a combination of select retail and high brand value companies with median revenues of $21 billion and an average employee count of 138,000.

Tax Deductibility. Section 162(m) of the Internal Revenue Code (Code) places a limit of $1,000,000 on the amount of compensation that we may deduct in any given year with respect to the CEO and each of our four other most highly paid executive officers serving as of the end of the last fiscal year for whom compensation is required to be reported in the Company s proxy statement. There is an exception to the $1,000,000 limitation for performance-based compensation meeting certain requirements. Our stock option awards and performance-based restricted stock unit awards generally are performance-based compensation meeting those requirements and, as such, are typically fully deductible. Our annual base salary and cash incentive compensation is generally subject to the Section 162(m)

deduction limitations. To maintain flexibility in compensating executive officers in view of the overall objectives of our compensation program, the Human Resources and Compensation Committee has not adopted a policy requiring that all compensation be tax deductible.

Financial Restatement. As noted above, one of the objectives of our compensation program is to make a substantial portion of compensation dependent on the Company s overall financial performance. In the event of a financial restatement arising out of willful actions or gross negligence, the Human Resources and Compensation Committee would determine the appropriate action, which could include requiring relinquishment of previously awarded equity-based incentive compensation and/or repayment of previously paid cash compensation.

What are the Principal Elements of our Compensation Program?

There are three principal components of our executive compensation program:

- Base salary;
- Annual cash incentive awards; and
- Long-term incentive awards, currently delivered in the form of equity awards.

In keeping with the objectives of the compensation program, the majority of the compensation opportunity for our executive officers is based on performance. At a target level of performance and payout, on average, 70% of the named executive officers total direct compensation is at-risk. At a target level of performance, the plans are designed to reward executives with pay that is competitive with the 50th percentile of the market. The plans are leveraged in such a way that outstanding performance results in pay that is well above the 50th percentile of the market and poor performance could result in an executive s annual cash incentive and 50% of his or her long-term equity award being as little as zero. We believe that the combination of annual cash incentive awards and long-term incentive awards strikes the appropriate balance between the near-term focus on Company sales and profitability and the long-term focus on stockholder value creation.

Base Salary. In keeping with our Long Range Plan strategy of making JCPenney a great place to work, and the related initiative of attracting and retaining the best people in retail, we pay base salaries that are competitive based on market data for comparable positions at companies in our peer groups. We review base salaries, which are benchmarked against median market data for the position, annually. Once base salary has been fixed, it does not change based on Company performance. Merit increases, when approved, are intended to reward individual performance consistent with our WINNING TOGETHER Principle of paying for performance, as well as to ensure that the individual s base salary remains competitive for the position based on the skill, knowledge, effort, and responsibility needed to perform the job successfully. The Summary Compensation Table presents the named executive officers actual salaries for 2006.

Annual Cash Incentive Awards. Annual cash incentive compensation is determined and paid pursuant to our Management Incentive Compensation Program. This component of the overall compensation program provides named executive officers as well as other management associates the opportunity to earn cash awards based on the achievement of specified Company and individual goals for the year. For the named executive officers, the program provides that 50% of the award is based on individual performance and 50% is based on Company performance in relation to pre-established goals. Awards are paid in the year following the year in which they are earned.

Each participant in the program has a target incentive opportunity, which is a percentage of the individual s base pay and is based on the range of competitive market data for the position. For 2006, the target incentive opportunities for the named executive officers ranged from 50% to 100% of base salary. For the named executive officers other than the CEO, the target incentive opportunity is set by the Human Resources and Compensation Committee based upon its evaluation of the recommendations of the CEO. The target incentive opportunity for the CEO is set by the independent directors of the Board.

For both the individual and Company performance components of the award, performance goals are established at the beginning of the fiscal year. At the end of the fiscal year, a payout factor is calculated for each component. In both cases, the factor can range from 0 to 200% of the target incentive opportunity. The payout factor for the individual component is based on the individual s performance measured against the participant s individual goals. The payout factor for the Company component is based on the Company s actual results in relation to its goals for sales and operating profit (which is defined for this purpose as earnings from continuing operations before interest, income taxes, the change in the LIFO reserve (year-over-year), and real estate and other non-operating charges/credits) that

were set at the beginning of the year.

The final payout is determined pursuant to the following calculation:

Total Payout = (50% × target incentive opportunity × Individual Payout Factor) + (50% × target incentive opportunity × Company Payout Factor).

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Set forth below are the 2006 payout factors for the Company component of the annual cash incentive award.

Management Incentive Compensation Program
2006 Payout Factors

Sales				Operating Profit			
Results Against Plan	**% + /– Plan**	**Payout Factor**	**Weighted Payout Factor**	**Results Against Plan**	**% + /– Plan**	**Payout Factor**	**Weighted Payout Factor**
103.0%	3.0%	200%	100%	110%	10%	200%	100%
102.7%	2.7%	190%	95%	109%	9%	190%	95%
102.4%	2.4%	180%	90%	108%	8%	180%	90%
102.1%	2.1%	170%	85%	107%	7%	170%	85%
101.8%	1.8%	160%	80%	106%	6%	160%	80%
101.5%	1.5%	150%	75%	105%	5%	150%	75%
101.2%	1.2%	140%	70%	104%	4%	140%	70%
100.9%	0.9%	130%	65%	103%	3%	130%	65%
100.6%	0.6%	120%	60%	102%	2%	120%	60%
100.3%	0.3%	110%	55%	101%	1%	110%	55%
100.0%	**0%**	**100%**	**50%**	**100%**	**0%**	**100%**	**50%**
99.5%	–0.5%	90%	45%	99%	–1%	90%	45%
99.0%	–1.0%	80%	40%	98%	–2%	80%	40%
98.5%	–1.5%	70%	35%	97%	–3%	70%	35%
98.0%	–2.0%	60%	30%	96%	–4%	60%	30%
97.5%	–2.5%	50%	25%	95%	–5%	50%	25%
97.0%	–3.0%	40%	20%	94%	–6%	40%	20%
96.5%	–3.5%	30%	15%	93%	–7%	30%	15%
96.0%	–4.0%	20%	10%	92%	–8%	20%	10%
95.5%	–4.5%	10%	5%	91%	–9%	10%	5%
95.0%	–5.0%	0%	0%	90%	–10%	0%	0%

A minimum level of Company operating profit performance is required in order to receive a payout. A Company operating profit result of 90% or less against plan will result in a zero payout for the Company performance component of the award, regardless of the sales performance.

For 2006, the Company Payout Factor was 161.5%, as compared to 155% in 2005 and 160% in 2004. The Company Payout Factor, which determines half of the total annual cash incentive award, was determined on the basis of the Company exceeding its sales plan by 1.3% and exceeding its operating profit plan by 8%, reflecting that the Company is well ahead of schedule on its goals under the Long Range Plan.

For 2006, the Company s performance was:

Measure	**Plan**	**Actual**	**% +/– Plan**	**Weighted Payout Factor**

Sales	*$ 19,651,189,000*	*$ 19,902,947,000*	*1.3*	*71.5%*
Operating Profit	*$ 1,733,692,000*	*$ 1,872,011,000*	*8.0*	*90.0%*

The Individual Payout Factor, which determines the other half of the incentive award, ranged from 190% to 200% for the named executive officers based on their individual performance in relation to pre-established goals.

The actual payouts for 2006 for each of the named executive officers are presented in the Summary Compensation Table under the column Non-Equity Incentive Plan Compensation. The range of payouts for each of the named executive officers is presented in the Grants of Plan-Based Awards table.

Long-Term Incentive Awards. Long-term incentive awards are made under our 2005 Equity Compensation Plan. This plan provides equity-based awards to eligible associates, including the named executive officers, other Company officers, senior management associates, and store managers. We provide long-term incentive awards to promote both our 2005 2009 Long Range Plan strategy of making the Company a leader in performance and execution and our WINNING TOGETHER Principle of paying for performance. Generally, whether an associate receives an award and the size of the award are a function of the associate s position and performance.

Long-term incentive awards currently include:

- Performance-based restricted stock unit awards; and
- Stock options.

As of March 14, 2007, performance-based restricted stock unit awards covering 361,974 shares of common stock and non-qualified stock options covering 1,431,842 shares of common stock at an option price of $78.50 per share (the closing price of the Company s common stock on the date of grant) were granted to 1,630 management associates of the Company.

The number of performance units and stock options awarded to each participant is based on a predefined target equity dollar value for the participant. The target equity dollar value for each participant is determined by the participant s position, taking into consideration competitive market data for comparable positions at companies in our peer groups and the Company s overall equity plan budget for the year.

Consistent with our objective of rewarding individual results, the actual equity dollar value that a participant receives at grant is based on the participant s performance and future potential. In 2006, the actual equity dollar value at grant for each participant generally ranged from 80% to 120% of the target equity dollar value based on individual performance for the previous year. For 2007, the range was expanded to 0 to 150% of the target equity value to give managers greater flexibility in differentiating the size of individual awards based on the participant s performance and long-term potential. Participants receive 50% of their actual equity dollar value in performance-based restricted stock units and 50% in stock options. We believe a 50/50 split between performance units and options best balances the near-term focus on Company profitability reflected in the performance-based restricted stock units with the long-term focus on stockholder value creation for the stock options. For purposes of determining the actual number of stock options to be granted, we divide 50% of the equity dollar value by the fair value of a stock option on the date of grant, which is calculated pursuant to a binomial lattice model, which is the same model used for purposes of measuring compensation expense for stock options in the Company s financial statements.

Performance-Based Restricted Stock Units. Performance-based restricted stock units are granted to reward both individual performance and Company performance (based on earnings per share). The number of performance units granted is a target award which may increase or decrease based on the extent to which the Company achieves the performance measurement established by the Human Resources and Compensation Committee at the beginning of the performance cycle, which is our fiscal year. If the Company experienced poor performance for the performance cycle, the number of performance units earned for that fiscal year could be as few as zero. At the end of the fiscal year, the percent of the target award earned is determined pursuant to a payout matrix that the Committee has established.

The payout matrix sets forth a range of payout percentages relative to the Company s actual results for the fiscal year. For 2006, the performance measurement was earnings per share (defined as diluted per common share income from continuing operations, excluding any unusual and/or extraordinary items identified by the Committee) and the payout percentages under the payout matrix ranged from 0 to 200%. For participants to receive 100% of the target award for 2006, the Company had to generate earnings per share of $4.26 for the fiscal year, which represented an 11.2%

increase over 2005 earnings per share.

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2006 Performance Unit Award Payout Matrix

	2006 EPS	Plan Payout %
Maximum	$ 4.69	200.0%
	$ 4.65	190.7%
	$ 4.60	179.1%
	$ 4.55	167.4%
	$ 4.50	155.8%
	$ 4.45	144.2%
	$ 4.40	132.6%
	$ 4.35	120.9%
	$ 4.30	109.3%
Target	**$ 4.26**	**100.0%**
	$ 4.20	91.8%
	$ 4.15	84.9%
	$ 4.10	78.1%
	$ 4.05	71.2%
	$ 4.00	64.4%
	$ 3.95	57.5%
	$ 3.90	50.7%
	$ 3.85	43.8%
	$ 3.80	37.0%
	$ 3.75	30.1%
	$ 3.70	23.3%
	$ 3.65	16.4%
	$ 3.60	9.6%
	$ 3.55	2.7%
Threshold	$ 3.53	0.0%

Fiscal 2006 earnings per share was $4.88, which generated a payout of 200% of the target award. As with the Company Payout Factor under the Management Incentive Compensation Program, the performance unit payout for fiscal 2006 reflected that the Company is well ahead of schedule on its goals under the Long Range Plan.

Once the performance cycle ends, the actual performance units earned are then subject to additional time-based vesting requirements. One-third of the earned award vests on each of the first three anniversaries of the grant date provided that the participant remains continuously employed with the Company during that time. In addition, following the end of the performance cycle, dividend equivalents accrue on any outstanding unvested performance units. Upon vesting, the performance units and related dividend equivalents are paid out in shares of JCPenney common stock.

Stock Options. Stock options are awarded with an exercise price equal to the fair market value of JCPenney common stock on the date of grant. Accordingly, stock options have value to the recipient only if the market price of the common stock increases after the date of grant. The stock option awards, which are also granted to reward individual performance and future potential, are intended to align the executives interests with those of our stockholders.

Under the 2005 Equity Compensation Plan, fair market value was defined as the opening price of JCPenney common stock on the date of grant. In December 2006, the Company s Board of Directors amended the plan to provide that fair market value is defined as the closing price of JCPenney common stock on the date of grant.

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The stock options vest annually over a three year period provided that the participant remains continuously employed with the Company during that time and generally expire ten years after the date of grant.

Additional Awards. The Company may grant additional equity awards to recognize increased responsibilities or special contributions, to attract new hires, to retain associates or to recognize certain other special circumstances.

In 2006, the Human Resources and Compensation Committee approved special equity awards for the following named executive officers:

Ms. West In connection with joining the Company and forfeiting equity upon leaving her previous employer, on July 31, Ms. West received a one-time award of 47,356 restricted stock units and 269,929 non-qualified stock options with an exercise price of $63.35. Both awards vested when Ms. West s employment with the Company was terminated in accordance with the terms of her Executive Termination Pay Agreement.

Mr. Hicks On August 1, Mr. Hicks was granted 29,904 non-qualified stock options with an exercise price of $62.50. These options vest equally over three years from the date of grant. The award was made to bring Mr. Hicks up to a more competitive level of long-term incentive for the year based on external competitive data and relative position within the Company.

In 2007, the Human Resources and Compensation Committee approved special one-time restricted stock unit awards for Mr. Hicks and Mr. Theilmann in the amount of 19,108 units and 9,554 units, respectively. Both awards vest 50% on the third anniversary of the grant date, 25% on the fourth anniversary of the grant date, and 25% on the fifth anniversary of the grant date. These awards were approved in recognition of Mr. Hicks and Mr. Theilmann s contributions to the Company s success last year and to help retain these individuals in the future.

For awards outstanding for each of the named executive officers, see the Outstanding Equity Awards at Fiscal Year-End table. Actual awards vesting, earned or exercised during the fiscal year are presented in the Option Exercises and Stock Vested table.

Equity Award Grant Policy. The Human Resources and Compensation Committee has adopted a Policy Statement which sets forth its practices regarding the timing of, and approval process for, equity awards.

Grant	**Grant Date**
Annual grant	Third full trading date after Committee approval (occurs in first quarter of the fiscal year)
Off-cycle grants other than to new hires	Third full trading date following public release of earnings for the fiscal quarter in which the award is approved
Off-cycle grants for new hires	Third full trading date following the public release of earnings for the later of the fiscal quarter in which (a) the award is approved or (b) the associate s employment with the Company begins

The Committee also adheres to the following approval policies in making equity awards to associates:

Equity awards to the CEO must be approved by the independent directors of the Board.
Equity awards to executive officers other than the CEO, including new hires, must be approved by the Committee.

The annual grant of equity awards to associates must be approved by the Committee.
The authority to approve equity awards to new hires who are not executive officers has been delegated by the Committee to the CEO.
The authority to approve off-cycle equity awards to associates who are not executive officers has been delegated by the Committee to the CEO.

Stock Ownership Goals. JCPenney strives to align pay with the long term interest of stockholders. On February 27, 2007, the Human Resources and Compensation Committee recommended and the Board of

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Directors adopted formal stock ownership goals for senior executives of the Company. The stock ownership goals specify that, within a five-year period, executives should attain an investment position in Company stock of the following:

- CEO: five times base salary
- President and Chief Merchandising Officer: three times base salary
- Executive Vice Presidents: one times base salary
- Senior Vice President serving on the Executive Board: one times base salary

In addition to directly owned stock, shares held in Company qualified and non-qualified savings plans are included in calculating ownership levels. Unvested awards and unexercised stock options do not count toward the ownership goals.

What are our Other Compensation Program Elements?

In addition to the three principal components of our compensation program, we also offer the following to our executive officers:

- Retirement benefits
- Deferred compensation plan
- Health and welfare benefits, including medical and dental benefits, vacation, and group term life insurance benefits
- Change in control arrangements
- Severance arrangements
- Perquisites.

Retirement Benefits. We provide certain retirement benefits to our associates that are designed to help us achieve our Long Range Plan strategy of making JCPenney a great place to work by attracting and retaining the best people in retail. As with the principal components of our compensation program, our retirement benefits are intended to provide an industry competitive level of benefits based on the skill, knowledge, effort, and responsibility required to perform the job successfully.

Until January 1, 2007, the primary retirement income vehicle we provided was a tax-qualified defined benefit Pension Plan (Pension Plan), which was intended to provide retirement income to all eligible associates. In addition, we maintain a nonqualified excess defined benefit plan (Benefit Restoration Plan or BRP) that provides benefits to associates whose Pension Plan benefits may be limited by Internal Revenue Code limits. Effective January 1, 2007, the Pension Plan and BRP were closed to new associates in recognition that defined benefit pension plans are becoming less common in the retail industry and that many new associates place a premium on portability of retirement benefits. Accordingly, for associates hired after December 31, 2006, including executive officers of the Company, the Pension Plan and BRP benefits have been replaced by a new retirement account, which is a component of both our qualified defined contribution 401(k) plan (Savings Plan) and our non-qualified defined contribution plan (Mirror Savings Plan), in which the Company contributes an amount equal to 2% of the participant s annual pay after one year of service. Participating associates will be fully vested in this retirement account after three years of service.

As of the date of this Proxy Statement, Mr. Cavanaugh is the only named executive officer who is vested in the Pension Plan and BRP. Mr. Ullman, Mr. Hicks, Mr. Theilmann, and Ms. Bober participate in both the Pension Plan and BRP, however, they have not yet vested in their respective benefits under these plans. Ms. West s employment was terminated before she met the service requirement to begin to accrue benefits under the Pension Plan and BRP.

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The estimated lump sum value of retirement benefits are quantified in detail in the Pension Benefits table. The change in actuarial value of the lump sum amount is presented in the Summary Compensation Table.

Pension Plan. As noted above, the Pension Plan is a tax qualified defined benefit plan intended to provide retirement income to all eligible associates. To be eligible to participate in the Pension Plan an associate must:

- have been hired or rehired before January 1, 2007,
- be employed at least one year,
- have 1,000 hours of service, and
- be at least age 21.

To be vested in a Pension Plan benefit a participant must be employed for at least five years or attain age 65.

The normal retirement age under the Pension Plan is age 65. The normal retirement benefit formula in the Pension Plan is equal to:

- the average of the participant s highest five consecutive full calendar years of pay (including salary and incentive compensation actually paid during that year), out of the last ten years of service (average final pay) times 0.75%, plus
- 0.50% of the participant s average final pay that exceeds the average of the Social Security taxable wage bases in effect for each calendar year during the 35 year period ending on December 31 of the year an associate reaches the Social Security retirement age, multiplied by
- The participant s years of credited service up to 35 years.

Once a participant has at least 25 years of credited service, he or she is eligible for an additional Pension Plan retirement benefit, equal to 0.25% of his or her average final pay times his or her years of credited service exceeding 25 years, up to a maximum of 10 years.

The above formula computes a benefit intended to be payable for the participant s life. The primary form of benefit for a single participant is a single life annuity and for a married participant is a 50% qualified joint and survivor annuity. Other annuity benefit payment options are also available. A single life annuity provides a greater annual benefit amount paid over a shorter period of time than a 50% qualified joint and survivor annuity. All benefit payment option forms are actuarially equivalent. The Pension Plan does not provide a lump sum payment unless the monthly benefit amount from the Pension Plan is $100 or less.

Mr. Cavanaugh is the only named executive officer eligible for an early retirement benefit under the Pension Plan since he has attained age 55 and has at least 15 years of service. The Pension Plan early retirement benefit is the normal retirement benefit computed above reduced by:

- 0.3333% for each month between the ages of 65 and 60; and
- 0.4176% for each month between the ages of 60 and 55,

that the participant begins to receive the early retirement benefit.

Benefit Restoration Plan. The BRP is a non-qualified excess defined benefit plan that provides retirement income to eligible associates whose Pension Plan benefit is limited by Code limits on compensation ($220,000 for 2006) or maximum annual benefits ($175,000 for 2006). For 2007, these limits have been increased to $225,000 and $180,000, respectively.

The BRP uses the same eligibility, years of credited service, vesting, formula, early retirement reductions and retirement age criteria found in the Pension Plan. The excess benefit over the Code imposed limits in the Pension Plan is paid from the BRP.

The formula computes a benefit intended to be payable for the participant s life. The primary form of benefit is the same benefit payment form selected under the Pension Plan. A five year annual installment option, not available under the Pension Plan, is also available under the BRP, which produces a higher annual payment than a single life annuity or a qualified joint and survivor annuity. As with the Pension Plan, all

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benefit payment option forms are actuarially equivalent. The BRP does not provide for a lump sum payment unless the combined monthly benefit amount from the Pension Plan and BRP is $100 or less, or a change in control has occurred. Under the terms of the BRP, the Company is required to set up a funded trust upon a change in control.

The BRP includes the same early retirement benefit provisions as are contained in the Pension Plan. As with the Pension Plan, Mr. Cavanaugh is the only named executive officer eligible for an early retirement benefit under the BRP.

If employment terminates for cause, all BRP benefits are forfeited.

Supplemental Retirement Program. For eligible associates hired on or before December 31, 1995, we maintain an additional non-qualified benefit plan through the Supplemental Retirement Program for Management Profit-Sharing Associates (SRP). The SRP was designed to allow eligible management associates to retire at age 60 with retirement income comparable to the age 65 benefit provided under the Pension Plan and BRP. At the time of the SRP s adoption, management associates typically retired at age 60. The SRP was closed to new entrants on December 31, 1995. Mr. Cavanaugh is the only named executive officer eligible for the SRP.

The normal retirement age under the SRP is 60. The SRP calculates the participant s annual retirement income target amount as a percentage of the participant s average final earnings, which is the average of the associate s three full or partial years of highest earnings, taking into account the year of retirement and the previous nine full calendar years of service. Under the SRP, the annual cash incentive award earned, though paid in the following year, is included in each year s earnings.

The total of the following percentages is used in calculating the SRP retirement income target:

3% for the first ten full years of credited service,
1% for each of the next 20 full years of credited service, and
0.5% for each of the next ten full and partial years of credited service (maximum years of credited service for benefit accrual purposes is 40 years).

To determine the retirement income target, the total of the percentages calculated above is multiplied by final earnings. The retirement income target is then offset by:

Pension Plan benefits,
BRP benefits,
One-half of the participant s estimated age 62 Social Security benefit, and
An annuity based on the market value of the participant s Savings Plan and Mirror Savings Plan matching contribution accounts.

Since these offsets increase at a faster rate than the SRP formula after age 60, the SRP benefit decreases as the associate approaches age 65. The SRP also provides an age 62 Social Security make-up benefit for associates that retire at or after age 60 but before age 62.

If a participant retires at or after age 60 the participant will receive the higher of the benefit amount computed based on the SRP formula, or the reduction in the Pension Plan and BRP benefit amounts caused by retirement between age 60 and age 65 under those plans.

The SRP formula computes a benefit intended to be payable for the participant s life. The primary form of benefit payment under the SRP is a single life annuity. All benefit payment options available under the Pension Plan are also

available under the SRP. Like the BRP, the SRP offers a five year annual installment payment option. All benefit payment option forms are actuarially equivalent. The SRP does not provide for a lump sum payment unless the monthly benefit amount is less than $100 or a change in control has occurred. Under the terms of the SRP, the Company is required to set up a funded trust upon a change in control.

The SRP also provides a temporary term life insurance benefit for a participant who retires on or after age 60. Generally, the life insurance coverage amount equals the total of the participant s base salary and

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incentive compensation amounts for a plan year. JCPenney pays the premium for this policy. This life insurance coverage reduces 10% per year at age 60 and then ends at age 70.

The SRP also provides an early retirement benefit for associates between ages 55 and 60 with at least 15 years of service. Mr. Cavanaugh is currently eligible for this benefit. The early retirement benefit is determined by reducing the annual retirement income target percentage by 0.3333% per month for each month between the participant s retirement date and the first day of the month that the participant would turn age 60.

If employment terminates for cause, all SRP benefits are forfeited.

Deferred Compensation. We provide the Savings Plan as well as the Mirror Savings Plan as part of a competitive package of benefits designed to help us achieve our Long Range Plan strategy of making JCPenney a great place to work and the related initiative of attracting and retaining the best people in retail. Both the Savings Plan and Mirror Savings Plan offer eligible associates the opportunity to defer a portion of their base salary and annual cash incentive compensation as a means of saving for retirement and provide for Company matching contributions on participant contributions.

Savings Plan. The Savings Plan is a qualified defined contribution plan which provides all eligible associates, including the named executive officers, the opportunity to defer a portion of their base salary and annual cash incentive compensation as a means of saving for retirement. The Savings Plan generally allows associates to contribute up to 20% of their compensation up to the compensation limit imposed by the Code. For the named executive officers as well as other associates earning more than the compensation limit imposed by the Code, contributions to the Savings Plan are capped at 6% on a pre-tax basis and 2% after tax. For these individuals, the Company provides the Mirror Savings Plan as an additional vehicle for saving for retirement.

For 2006, the Company made a matching contribution of $0.88 per dollar deferred up to a maximum of 6% of deferrals to the Savings Plan in March 2007 based on the Company s fiscal year end profits. For 2007, the Company match is $0.50 per dollar deferred up to a maximum of 6% of deferrals to the Savings Plan and is credited each pay period. The Company may make additional discretionary matching contributions.

For Company contributions made for Plan Years prior to 2007, participants vest in the JCPenney matching contribution and related investment earnings at a rate of 20% per year of service. For Company contributions made for Plan Years 2007 and after, participants become 100% vested in the match after three years of service.

Mirror Savings Plan. The Mirror Savings Plan is a non-qualified defined contribution plan which provides associates earning more than the Code compensation limit for qualified savings plans (such as the Savings Plan) the opportunity to defer a portion of their base salary and incentive compensation exceeding the compensation limit as a means of saving for retirement. Accordingly, associates, including named executive officers, earning more than the compensation limit may defer up to 14% of their salary and annual incentive compensation below the Code compensation limit ($220,000 for 2006, $225,000 for 2007) and up to 75% of their compensation above the Code compensation limit through the Mirror Savings Plan.

As with the Savings Plan, for 2006, the Company s matching contribution on participant deferrals to the Mirror Savings Plan was $0.88 per dollar deferred up to a maximum of 6% of deferrals on compensation over $220,000. For 2007, the Company match is $0.50 per dollar deferred up to a maximum of 6% of deferrals on compensation over $225,000 and is credited each pay period. The Company may make additional discretionary matching contributions.

For Company contributions made for Plan Years prior to 2007, participants vest in the JCPenney matching contribution and related investment earnings at a rate of 20% per year of service. For Company contributions made for

Plan Years 2007 and after, participants become 100% vested in the match after three years of service.

Generally, all unvested matching contributions are forfeited when the participant terminates employment. The Mirror Savings Plan, like the Savings Plan, provides that all matching contributions are immediately vested and non-forfeitable if a participant terminates employment due to:

- Retirement at age 65
- Retirement at age 60, if the participant was eligible to participate in the Savings Plan before 1989

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- Qualifying for Social Security disability benefits while working for the Company,
- The work unit or type of work the associate was doing being discontinued (as determined by the Company), or
- Death.

Deferrals are credited to the participant s Mirror Savings Plan account and invested according to the participant s investment election. For 2006, the Company matching contribution was credited to the participant s account and invested in the Penney Common Stock Fund. Beginning in 2007, the match is credited to the participant s account and invested according to the participant s investment elections. Earnings on the balance in the participant s Mirror Savings Plan accounts are based on hypothetical investments in the same funds offered under the Savings Plan.

During the last fiscal year one or more of the named executive officers participating in the Mirror Savings Plan elected to invest their Mirror Savings Plan account balances in the following funds:

Fund	**One Year Average Rate of Return as of Fiscal Year End**
Penney Common Stock Fund	49.37%
Aggressive Fund	16.43%
Interest Income Fund	4.60%
S&P 500 Fund	14.85%
Moderate Fund	12.40%
Russell 1000 Growth Fund	10.09%
Horizon Fund	7.43%
Conservative Fund	12.62%
Intermediate Bond Fund	3.95%
T. Rowe Price Blue Chip Growth Fund	9.46%