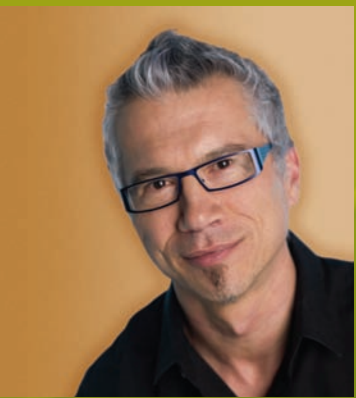
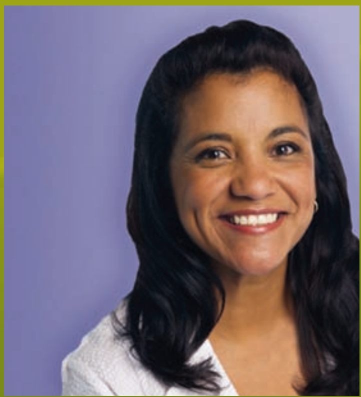
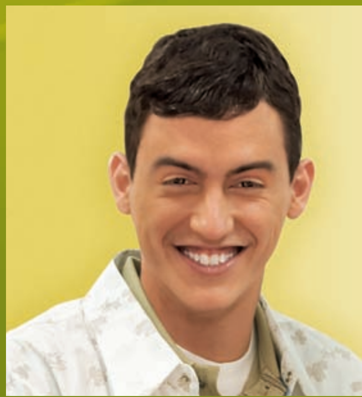
Your Benefits Book 2


401(k) Savings Plan

JCPenney

WINNING TOGETHER

Summary Plan Description

Effective January 1, 2007

JCPenney provides Associates with competitive benefit programs. Consistent with our WINNING TOGETHER Principles, we also provide a savings and retirement program to help Associates prepare for the future and retirement. You and the Company contribute to a tax-favored account to help you build your savings for retirement.

About This Book

This Summary Plan Description (SPD) describes major provisions of the J.C. Penney Corporation, Inc. Savings, Profit-Sharing Stock Ownership Plan, referred to as the 401(k) Savings Plan, to help you understand the plan and to satisfy the requirements of the Employee Retirement Income Security Act of 1974, as amended (ERISA) and the Securities Act of 1933, as amended, (the Securities Act). Because this document is not intended to be complete in every aspect, your rights and obligations are governed completely by the legal document for the 401(k) Savings Plan. For complete details of your rights and obligations under the 401(k) Savings Plan, refer to the plan document. You may view the plan at the plan administrator's office and other locations, such as worksites and union halls. A copy of the plan document is available for a reasonable photocopying charge by calling PowerLine.

This book contains a summary in English of your plan rights and benefits. If you have difficulty understanding any part of this book, contact PowerLine for help. Additionally, if you need help translating the benefit information contained in this book into a language you speak more fluently, contact PowerLine and speak with a specialist.

PowerLine
Your JCPenney Benefits Resource Center
100 Half Day Road
Lincolnshire, IL 60069-1458

1-888-890-8900

This document also serves as part of a prospectus covering securities that have been registered under the Securities Act, including participation interest in the 401(k) Savings Plan and shares of Common Stock of 50¢ par value of J.C. Penney Corporation, Inc. (Penney Common Stock).

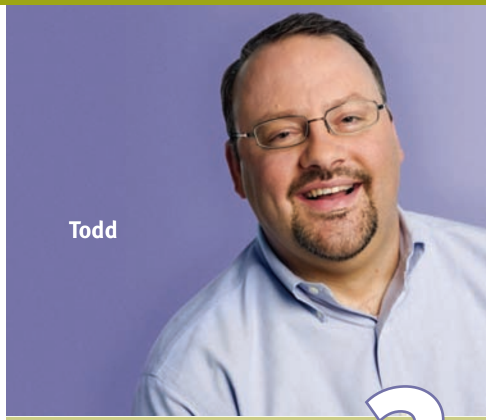
Este libro contiene un resumen en inglés de sus derechos y beneficios en el plan. Si tiene dificultad para entender cualquier parte de este libro, póngase en contacto con PowerLine para que le ayuden. Además, si necesita ayuda para traducir la información sobre los beneficios que se incluye en este libro a un idioma que hable con más fluidez, póngase en contacto con PowerLine para hablar con un especialista.

PowerLine
Su Centro de Recursos de Beneficios de JCPenney
100 Half Day Road
Lincolnshire, IL 60069-1458

1-888-890-8900

JCPenney 401(k) Savings Plan

Whether you're just starting your working career or you're close to retirement, the Company offers the 401(k) Savings Plan to help you prepare for the future. The 401(k) Savings Plan, along with Social Security and your own savings, can help you build your savings for retirement.



FAQs:

When can I start participating in the 401(k) Savings Plan? Page 8

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Can I change my investment elections? Page 24

Can I borrow money from my account? Page 32

Is there any relief for Associates affected by the 2005 hurricanes? Page 33

Can I withdraw money from my account? Page 34

Key Terms:

Definitions of key terms can be found throughout this document. A collection of definitions can be found under "Key Terms" in the back of this book.

The 401(k) Savings Plan is offered by participating employers and administered by the Company. Log on to Your Benefits Homepage from the Associate Kiosk or www.jcpenneypowerline.com for:

- **Information about the 401(k) Savings Plan**
- **Enrolling or changing your elections**

401(k) Savings Plan

This information is intended to be a summary of your benefits and does not include all plan provisions, limitations and exclusions. If there is a discrepancy between this document and the official plan document, the plan document will govern. The description of the 401(k) Savings Plan is not intended as an employment contract nor a guarantee of current or future employment. The Company reserves the right to modify, amend, suspend or terminate the plan at any time.

401(k) Savings Plan At-a-Glance

When You Can Participate	If you are at least age 21, you are eligible to enroll and to make your own deposits to the 401(k) Savings Plan starting with the first pay period after your date of enrollment.
Your Deposits	When you enroll, you elect whether to make before-tax deposits, after-tax deposits, or a combination of both. You also elect how much to deposit, up to the plan and government limits.
JCPenney Matching Contributions	After one year of service in which you work 1,000 hours, the Company will put in 50¢ for every dollar of the first 6% of pay you deposit. In some years, the Company may also put in an extra annual matching contribution.
Retirement Account Contributions	If you are hired or rehired on or after January 1, 2007, are at least age 21, and have completed a year of service in which you work 1,000 hours, the Company will make an annual contribution for you in the amount of 2% of your pay if you are still an active Associate on December 31. Associates hired before January 1, 2007, participate in the JCPenney Pension Plan and are not eligible for this contribution.
Tax-Deferred Investment Growth	You do not pay taxes on your before-tax deposits, matching contributions and retirement account contributions or earnings on those funds until you receive them. You also do not pay taxes on the earnings on your after-tax deposits until you receive them.
Investment Choices	You can choose from 22 investment options that include the Penney Common Stock Fund, 4 lifestyle funds, 7 index funds, and 10 mutual funds with various investment styles.
Vesting	Vesting is ownership in your account. You are always 100% vested in (or own) the value of your deposits. You earn vesting on your matching contributions and retirement account contributions based on your years of service.
Loans	You may borrow the lesser of: • The value of your before-tax, rollover and after-tax deposits, • $50,000 minus the highest balance of any other loans during the prior 12 months, or • 50% of your account balance. You may have two loans at a time.
Withdrawals	You may withdraw your after-tax or rollover deposits, but after-tax deposits cannot be withdrawn in the same calendar year they are made. You must be age 59 1/2 to withdraw your before-tax money unless you qualify for a hardship withdrawal.
Access to Information	Normally you can access Your Benefits Homepage from the Associate Kiosk or www.jcpenneypowerline.com 24-hours-a-day, Monday – Saturday and after 12:00 p.m. Central time on Sunday. When you log on to Your Benefits Homepage or www.jcpenneypowerline.com you can: • Get information about enrolling in the 401(k) Savings Plan • Get a better understanding of the 401(k) Savings Plan • Enroll in the 401(k) Savings Plan, make changes to your deposit amount, or select or change your investment fund choices • Get access to investment advice • Complete a transfer among funds, or • Request a loan, withdrawal or distribution.

Eligibility & Enrollment

Eligibility

You are eligible to enroll and make deposits to the plan as soon as you are hired as long as you are:

- Age 21, and
- An Associate of the Company or a participating employer who has adopted the plan.

Some persons are not eligible to participate in the 401(k) Savings Plan. This includes leased employees, anyone classified by the Company as an independent contractor (whether or not this is reclassified later by the Internal Revenue Service or a court), nonresident aliens who receive no U.S.-source earned income from a participating employer, and any Associate employed in a position designated by the Company as ineligible to participate.

When can I start participating in the 401(k) Savings Plan?

Assuming you are at least age 21, you can enroll in the 401(k) Savings Plan at any time. Your participation will begin as soon as you enroll and make your first deposit.

Enrolling

You can enroll in the 401(k) Savings Plan by logging on to Your Benefits Homepage from the Associate Kiosk or www.jcpenneypowerline.com.

You must set up a user ID and password to protect the security of your account. You must use your User ID and password to enroll, get information, make requests or make changes to your account.

When you enroll, you will:

- Choose the percentage of your eligible pay that you want to deposit into the 401(k) Savings Plan
- Choose if you want to contribute on a before-tax basis, after-tax basis, or a combination of both
- Choose how you want your deposits invested

Automatic Enrollment

If you are at least age 21, did not enroll in the plan and did not decline enrollment, you will be automatically enrolled in the 401(k) Savings Plan after you complete a year of service in which you work 1,000 hours. The automatic enrollment will result in a deposit into your account of four percent on a before-tax basis.

If you do not decline the automatic enrollment, you are electing an investment into the Interest Income Fund. You can change this election or transfer your deposits at any time.

When Participation Begins

Your participation will begin as soon as possible after you enroll in the plan and make your first deposit. Your first deposit is usually made in the next payroll period after your enrollment.

When You Can Make Changes

You can make changes to your 401(k) Savings Plan account at any time. You may increase, decrease, or stop your deposits at any time, or you may change your fund choices at any time by logging on to Your Benefits Homepage from the Associate Kiosk or www.jcpenneypowerline.com. Your change becomes effective the next available pay period.

When Participation Ends

Participation ends:

- The date you no longer have an account balance, or
- The date the plan is terminated.

Life Events and Your Participation

When You	What Happens
Begin work for JCPenney	You may enroll in the plan immediately after you begin work if you are at least age 21. You can begin making deposits the first pay period following your enrollment.
Complete one year of service with 1,000 hours	You become eligible for Company matching contributions. The Company will contribute 50 cents for every dollar of the first 6% of pay you deposit. Provided you were hired or rehired after January 1, 2007, you also become eligible for the retirement account contribution, which is equal to 2% of pay.
Begin a Leave of Absence	If you are not receiving pay, your deposits stop. However, you will receive any Company contributions that you are eligible to receive.
Return from a Leave of Absence	You may resume your deposits. If you were previously eligible to receive Company contributions, you will be eligible for those contributions when you return to work.
Leave the Company	If you are not fully vested when your employment ends, you keep only the vested portion of your Company contributions and any related investment earnings in the 401(k) Savings Plan. You are always 100% vested in your deposits. Your account can remain in the 401(k) Savings Plan only if your total vested account value is more than $1,000.
Die	Your beneficiary receives your 401(k) Savings Plan account balance.

How the 401(k) Savings Plan Works

The 401(k) Savings Plan allows you to set aside money for your retirement. And, the Company may contribute money to your account to help you save for retirement.

Your Deposits

Depending on your annual pay, you may save from one percent to 50 percent (in whole percentages only) of your pay through before-tax and/or after-tax deposits to the 401(k) Savings Plan. Your deposits are made by payroll deduction. You may change the amount you deposit, stop deposits, or begin deposits at any time.

Before-Tax Deposits

Before-tax deposits are taken out of your pay before income taxes are calculated. This reduces your taxable income, so you pay less current federal income tax (and less state and local income taxes in most places). By paying less in taxes, you increase the amount you can save or take home. You do not pay income taxes on your before-tax deposits (and related earnings) until you withdraw them from your account.

After-Tax Deposits

After-tax deposits are taken out of your pay after income taxes are calculated, so your current-year taxable income is not reduced. But, when you withdraw your after-tax deposits from your account, you pay taxes only on the earnings because you have already paid taxes on the amounts you deposited.

Before-Tax vs. After-Tax Deposits

The example below shows how saving with before-tax and after-tax deposits affects your taxable pay and take-home pay.

Example:

Annual Pay = $18,000

Deposits = 6% each year

Federal Tax Rate = 15%

	Before-Tax Deposit	After-Tax Deposit
Annual pay	$18,000	$18,000
Before-tax deposit	- 1,080	- 0
Taxable pay	$16,920	$18,000
Estimated federal income tax*	- 2,538	- 2,700
After-tax deposits	- 0	- 1,080
Take-home pay	$14,382	$14,220
Tax savings with before-tax deposit	**$162**	

**Does not include Social Security, Medicare or any applicable state taxes.*

By saving with before-tax deposits, you would pay $162 less in federal income tax.

When can I start making deposits?

You are eligible to make deposits into the 401(k) Savings Plan beginning the first pay period following your date of hire, provided you are at least age 21 and enrolled in the plan.

Key Terms:

Pay – Your regular salary or wages, including commissions, overtime, cash incentives, but not including items such as non-cash prizes, relocation payments, income from stock options and awards, etc. For purposes of figuring your deposits and Company matching contributions, deferrals to a non-qualified plan are not included as pay.

Deposits – The amount of your paycheck that you elect to contribute to the 401(k) Savings Plan trust, including both before-tax and after-tax deposits.

How Much You May Deposit

At the same time you choose before-tax or after-tax deposits, you also choose how much of your pay you want to deposit, up to the plan and government limits. As shown in the table below, the percentage of pay you may deposit in the current calendar year is based on your actual annual pay for the prior calendar year. Your actual annual pay is your pay from January 1 through December 31, of the prior calendar year.

If your annual pay in the previous year was ...	You may deposit ...
$100,000* or Less	1% to 50% of your pay. Your before-tax deposits are limited by the dollar limit set each year by the IRS. For 2007, before-tax deposits are limited to $15,500 in the U.S. (See the following "Special Note for Puerto Rico Associates")
More than $100,000*	1% to 8% of your pay. Your before-tax deposits are limited to the lesser of 6% or the dollar limit set each year by the IRS. For 2007, before-tax deposits are limited to $15,500 in the U.S. (See the following "Special Note for Puerto Rico Associates")

**The $100,000 limit is determined and changed by the Internal Revenue Service (IRS) from time to time.*

Federal law limits the amount of annual pay that can be taken into account when calculating your 401(k) Savings Plan deposits and Company matching contribution. For 2007, the amount is $225,000. This limit is determined by the IRS and changes from time to time.

Special Note for Puerto Rico Associates

The laws of Puerto Rico limit the amount you may deposit before-tax in any year to the lesser of $8,000, or 10 percent of your pay. These limits may change from time to time. In Puerto Rico, your before-tax deposits and after-tax deposits are currently limited to 10 percent. For 2007, your before-tax deposits are limited to $8,000.

Limits on Associate Deposits

The IRS puts limits on the amount of pay an Associate may deposit to plans such as the 401(k) Savings Plan. The Company may also set limits to ensure the 401(k) Savings Plan is able to meet certain IRS requirements. To meet these requirements, the Company may have to reduce some Associates' deposit rates during the year or refund deposits to some Associates. You will be notified if you must reduce your deposit rate or receive a refund.

Deposits Suspended While on Military Leave

You cannot make any deposits to your account during a leave of absence (including a military leave of absence). But, after you return to work from a qualified military leave, the law allows you to make up any deposits you missed. If you do so, those deposits will be eligible for the Company match. You may make up those missed deposits within the earlier of three times your period of military leave or five years. Call PowerLine at 1-888-890-8900 for more information. Retirement account contributions will be contributed the later of 90 days after re-employment or when normally due.

If you do not return to work, the 401(k) Savings Plan will consider the last day of your approved leave period to be the date your employment ends.

Catch-up Contributions

If you are at least age 50 by the end of the year, you can make extra before-tax deposits (catch-up contributions) to the 401(k) Savings Plan during the year up to the annual limits. For 2007, the annual limit is $5,000.

Catch-up contributions allow you to save more than the IRS before-tax limits (e.g. $15,500 for 2007) and more than specific limits that apply to the 401(k) Savings Plan. Catch-up contributions are invested according to your current investment elections. These contributions are 100 percent vested, but are not eligible for the Company's matching contributions.

To make catch-up contributions, decide how much you want to deposit each pay period (in whole dollar amounts) and then log on to Your Benefits Homepage or www.jcpenneypowerline.com to change your elections. Once you've elected catch-up contributions, you don't need to make a new election each year. Your current deposit amount will continue until you change it. The catch-up contribution limit may change from year to year, so if you don't change your contribution amount each year, the amount of your deposits may not reach the maximum allowable amount.

NOTE: (1) Catch-up contributions are not eligible for Company matching contributions. (2) Associates in Puerto Rico are not eligible for catch-up contributions.

Company Contributions

Fixed Company Match

You will be eligible to receive a fixed Company matching contribution after you have completed one year of service in which you work 1,000 hours. Each pay period, for every dollar you deposit up to the first six percent of pay, the Company will add 50¢ to your account.

Discretionary Company Match

After the end of each fiscal year, the Company may choose to make an additional matching contribution on up to six percent of your pay that you deposit in the 401(k) Savings Plan as of December 31 of the prior calendar year. You will be eligible to receive any discretionary matching contributions from the Company for that year if you are eligible for matching contributions and you are an active Associate on December 31 of the plan year.

When will I start receiving matching contributions?

You will receive a fixed Company matching contribution after you complete one year of service in which you work 1,000 hours.

Retirement Account Contributions

After the end of each calendar year, the Company will deposit two percent of your pay into your retirement account if you:

- Were hired or rehired on or after January 1, 2007
- Are at least age 21
- Have completed a year of service in which you work 1,000 hours, and
- Are an active Associate on December 31.

This deposit will be made in the first quarter of the year following the year in which you meet the above requirements. The deposit will be based on pay you receive from the date you meet the above requirements to December 31.

Partial Year Contributions

You may be eligible for a special partial discretionary matching contribution and/or a partial retirement account contribution if you terminate employment before December 31. The partial contribution will be made to your account if you were eligible to receive the contribution and you terminate employment consistent with one of the following:

- At age 55 or later with at least 15 years of service
- At age 65 or later
- At age 60 or later, and you were a participant before January 1, 1989
- Because you qualify for Social Security disability benefits while working for the Company or a participating employer
- Because your work unit or type of work you do has been discontinued, as determined by the Company, or
- Because you die.

Any partial contribution you are eligible for will be based on your employment during the year and contributed into your account at the same time amounts are contributed for all Associates.

Eligibility for Company Contributions If You Are Rehired

If you were a 401(k) Savings Plan participant and eligible to receive Company contributions when your employment ended, you are immediately eligible to receive matching contributions provided you have made deposits to the 401(k) Savings Plan in the year you are rehired. You will be eligible to receive retirement account contributions on your eligible pay for the actual time worked during the year.

Key Terms:

Hour of Service – Each hour for which you are paid or entitled to be paid — including vacation time, Illness Recovery Time, overtime, holidays, and jury duty — as well as approved leaves of absence or layoff. If you are not paid on an hourly basis, you are credited with 45 hours of service per week.

Key Terms:

Entry Date – For purposes of participation, your entry date is the first payroll deposit after you enroll. For purposes of the fixed Company matching contribution and retirement account contribution, your entry date is the first payroll after you complete one year of service and 1,000 hours.

If you were not already eligible to receive Company contributions when you left the Company and you are rehired:

- **Before the end of your initial eligibility period –** Your initial eligibility period does not change. If you complete 1,000 hours of service during this period, you are eligible to receive Company contributions so long as you are an Associate of a participating employer on this date.
- **After the end of your initial eligibility period and before a break in service –** You will have a year of eligibility service on the date you are rehired if you already completed at least 1,000 hours of service during any 12-consecutive-month eligibility period since your original employment date. You are eligible for Company contributions on the later of the date you are rehired or the first entry date after you reach at least age 21 so long as you are an Associate of a participating employer on this date.

  If, when you are rehired, you have not already completed at least 1,000 hours of service within any 12-consecutive-month eligibility period, you will have a year of service as soon as you complete 1,000 hours of service within an eligibility period. Your eligibility periods are retroactive 12-month periods ending on the last day of each calendar month, beginning with the month in which you are rehired. You are eligible to receive Company contributions on the first entry date on or after you complete a year of service and reach at least age 21 so long as you are an Associate of a participating employer on this date.

  If you are rehired before a break in service occurs, any Company contributions that were not vested and were forfeited are returned to your 401(k) Savings Plan account for investment.
- **After a break in service –** You will be treated as a new Associate. A break in service occurs if you do not complete an hour of service for five consecutive years, beginning on the anniversary of your original hire date that occurs after your employment ends.

Rollover Deposits

If you participated in another employer's qualified retirement plan before you came to work for the Company, you may be able to transfer (rollover) to the 401(k) Savings Plan some or all of your distributions from your prior employer's plan. You cannot roll over a loan or Roth 401(k) from another plan.

The 401(k) Savings Plan accepts eligible cash rollovers directly from another qualified retirement plan that meets certain legal requirements within 60 days after you receive an eligible distribution. For more information about rollovers or to request a rollover form, log on to Your Benefits Homepage or www.jcpenneypowerline.com.

If you make an eligible rollover deposit, you delay paying taxes on your before-tax savings and investment earnings and your earnings on after-tax savings until you actually withdraw the money from the plan. You always have 100 percent ownership of the value of your rollover deposit, including any related earnings.

Vesting

You receive credit toward becoming vested for each period of service with the Company and any of its subsidiaries. This is called "vesting service." You earn one year of vesting service for each 365 days of service. Vesting service is measured from your date of hire through the date you leave the Company. You also earn vesting service for periods after you leave the Company if you are rehired within 365 days.

- You are always 100 percent vested in the value of the deposits and rollovers that you make to the plan.
- You are always 100 percent vested in the value of the dividends that you earn on any Penney Common Stock in your Company accounts.
- For matching contributions made for plan years before January 1, 2007, you vest 20 percent for each year of vesting service.
- For matching contributions and retirement account contributions made for plan years after December 31, 2006, you are 100 percent vested after three years of vesting service.

If you are not fully vested when your employment ends, you keep only the vested portion of your Company contributions and any related investment earnings. You forfeit any non-vested portion of your Company contributions and any related earnings. Forfeited Company contributions may be used to restore forfeited amounts of rehired participants, offset Company contributions to the plan, pay plan expenses or help the 401(k) Savings Plan pass certain government-required tests.

Vesting Service If You Are Rehired

If you were eligible to participate in the 401(k) Savings Plan when your employment ended, you never lose the vesting service you have already earned. Your vesting service applies, even if you did not participate in the 401(k) Savings Plan before your employment ended. If your employment ended before you were eligible to receive Company contributions in the plan, your prior vesting service will not be counted unless you are rehired before a break in service occurs. You also become 100 percent vested in the 401(k) Savings Plan — no matter how many years of service you have — if, while you are an Associate:

- You reach age 65
- You reach age 60, if you were eligible to participate in the 401(k) Savings Plan before January 1, 1989
- You qualify for Social Security disability benefits while working for the Company or a participating employer
- You terminate employment because your work unit or type of work you do is discontinued (as determined by the Company), or
- You die.

Key Terms:

Service or Vesting Service – Your total period of employment with the Company and its subsidiaries (and any service with an acquired Company that is permitted by the plan), including:

- Approved leaves of absence
- Certain service in the U.S. Armed Forces
- Periods when you are credited with disability service, and
- Any period after your employment ends, so long as you are rehired within 365 days.

Investment Funds Overview

Key Terms:

Diversification – The practice of limiting risk by investing in a variety of assets of different types or in different industries.

Return – The gain or loss on an investment usually expressed as an average compound annual percentage rate.

Time Horizon – The number of years over which you plan to invest.

Investment Funds Overview

The 401(k) Savings Plan investment funds offer a range of low to high risk investments.

Making Your Investment Decisions

Answering the following questions may help you decide which investment funds to choose:

- How conservative or aggressive an investor are you? Are you comfortable with assets which may change in value (up or down) more in the short-term to try to earn higher long-term returns? Would you rather try to limit your short-term risk, understanding that you may be giving up higher long-term returns?
- What is your investment "time horizon"? Are you just beginning to save for retirement or are you close to retirement now?
- How much do you want to invest in different types of assets ("diversification") to reduce the risk of "putting all your eggs in one basket?" Do you need financial advice?
- Do you know your rights regarding investments in Company stock? Do you understand the importance of diversifying your savings? See "Notice of Your Rights Concerning Employer Securities" on page 51 for complete details.

Funds At-a-Glance

Lower Risk/Lower Earning Potential — Higher Risk/Higher Earning Potential

Low	Low to Moderate	Moderate	Moderate to High	High
• Horizon Fund • Intermediate Bond Fund • Interest Income Fund	• Conservative Fund	• Moderate Fund	• S&P 500 Fund • Russell 1000 Growth Fund • Russell 1000 Value Fund • Fidelity Dividend Growth Fund • T. Rowe Price Blue Chip Growth Fund • Vanguard Equity Income Fund Admiral Shares	• Aggressive Fund • Russell 2000 Fund • EAFE Fund • Penney Common Stock Fund • American Century Growth Fund Investor Class • Vanguard Growth Equity Fund • T. Rowe Price Small-Cap Stock Fund • Dreyfus Founders Discovery Fund Class R • T. Rowe Price Small-Cap Value Fund • American Century International Growth Fund Investor Class • Fidelity Diversified International Fund

Investment Funds Overview

The funds are divided into three tiers.

Tier 1 Funds

Tier 1 is comprised of four lifestyle funds that are put together using diversified investments in three different asset classes (U.S. stocks, non-U.S. stocks and bonds). These funds are designed for participants who, based on their investment style, want a fund that has a mix of all different types of investments. The asset allocation of these funds will not be changed in anticipation of changes in stock or bond markets but rather will be rebalanced as necessary to maintain the percentages listed below.

Fund Name	Risk	Objective	Fund Investments Include ...
Aggressive Fund *Managed by State Street Global Advisors*	**Market:** High **Inflation:** Low	Closely match the weighted average rate of return of the Russell 3000 Index and the EAFE Index.	**75% U.S. Stock:** • State Street Global Advisors Russell 3000 Index Fund **25% Non-U.S. Stock:** • State Street Global Advisors Daily EAFE Index Fund
Moderate Fund *Managed by State Street Global Advisors*	**Market:** Moderate **Inflation:** Low to moderate	Closely match the weighted average rate of return of the Russell 3000 Index and the EAFE Index (for the U.S. and non-U.S. stock portion of the fund) and to outperform the Lehman Brothers Index (for the bond portion).	**55% U.S. Stock:** • State Street Global Advisors Russell 3000 Index Fund **15% Non-U.S. Stock:** • State Street Global Advisors Daily EAFE Index Fund **30% Bond:** • State Street Global Advisors Intermediate Bond Fund (average credit rating of AA by Standard & Poors; no lower than BBB)

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- **Information about the 401(k) Savings Plan**
- **Enrolling or changing your elections**

Key Terms:

Risk – The chance that an investment's value and return will go up and down.

- "Market Risk" – The chance that the market value of an investment could change (up or down) over any time period.
- "Inflation Risk" – The chance that a fund's rate of return will not be greater than inflation.

Investment Funds Overview

Benchmarks:

Russell 3000 Index – A weighted average index composed of approximately 3,000 stocks representing about 97 percent of the market value of publicly traded U.S. stocks. The index provides broad exposure and diversification within the U.S. stock market.

EAFE Index – The Morgan Stanley Capital International Europe, Australia, Far East Index (EAFE) is composed of approximately 1,000 stocks listed on stock exchanges in 21 major countries outside of North and South America and represents 85 percent of the market value of publicly traded stocks in Europe, Australia, and the Far East. The index provides broad exposure and diversification within the non-U.S. stock market.

Lehman Brothers Index – The Lehman Brothers Intermediate Government/Credit Bond Index is composed of bonds issued by the U.S. government, U.S. government agencies, and U.S. corporations. All the bonds in the index are rated BBB– to AAA by Standard & Poor's. The index is composed of bonds with maturities between one and 9.9 years.

Fund Name	Risk	Objective	Fund Investments Include ...
Conservative Fund *Managed by State Street Global Advisors*	**Market:** Low to moderate **Inflation:** Moderate	Closely match the weighted average rate of return of the Russell 3000 Index and the EAFE Index (for the U.S. and non-U.S. stock portions of the fund) and to outperform the Lehman Brothers Index (for the bond portion).	**40% U.S. Stock:** • State Street Global Advisors Russell 3000 Index Fund **10% Non-U.S. Stock:** • State Street Global Advisors Daily EAFE Index Fund **50% Bond:** • State Street Global Advisor Intermediate Bond Fund (average credit rating of AA by Standard & Poors; no lower than BBB)
Horizon Fund *Managed by State Street Global Advisors*	**Market:** Low **Inflation:** Moderate to high	Closely match the weighted average rate of return of the Russell 3000 Index and the EAFE Index (for U.S. and non-U.S. stock portions of the funds) and to outperform the Lehman Brothers Index (for the bond portion).	**25% U.S. Stock:** • State Street Global Advisors Russell 3000 Index Fund **5% Non-U.S. Stock:** • State Street Global Advisors Daily EAFE Index Fund **70% Bond:** • State Street Global Advisor Intermediate Bond Fund (average credit rating of AA by Standard & Poors; no lower than BBB)

The U.S. and non-U.S. stock portions of the above funds are indexed stock investments. Indexing is a common investment strategy that helps assure diversification in a wide variety of stock investments. The investment manager will seek to match the performance of the associated market index, while using his/her own judgment in choosing investments. The managers may invest in stock index futures contracts to reduce transaction costs but not to engage in speculative futures transactions.

Tier 2 Funds

Tier 2 is comprised of the eight funds listed below. Each fund represents diversified investments in U.S. stocks, non-U.S. stocks or bonds. Each stock fund also invests in companies of different sizes. These funds allow participants to create their own mix of the different investment types.

Fund Name	Risk	Objective	Fund Investments Include...
S&P 500 Fund *Managed by State Street Global Advisors*	**Market:** Moderate to high **Inflation:** Low	Closely match the rate of return of the S&P 500 Index.	U.S. common stocks of the S&P 500 Index (composed of 500 large cap stocks)
Russell 1000 Growth Fund *Managed by State Street Global Advisors*	**Market:** Moderate to high **Inflation:** Low	Closely match the rate of return of the Russell 1000 Growth Index.	U.S. common stocks of the Russell 1000 Growth Index (composed of 500 large cap growth stocks)
Russell 1000 Value Fund *Managed by State Street Global Advisors*	**Market:** Moderate to high **Inflation:** Low	Closely match the rate of return of the Russell 1000 Value Index.	U.S. common stocks of the Russell 1000 Value Index (composed of 700 large cap value stocks)
Russell 2000 Fund *Managed by State Street Global Advisors*	**Market:** High **Inflation:** Low	Closely match the rate of return of the Russell 2000 Index.	Common stocks of the Russell 2000 Index (composed of 2,000 small cap broad market stocks)
EAFE Fund *Managed by State Street Global Advisors*	**Market:** High **Inflation:** Low	Closely match the rate of return of the EAFE Index.	Non-U.S. common stocks of the Morgan Stanley EAFE Index (composed of 1,000 stocks in 21 countries outside North and South America)
Intermediate Bond Fund *Managed by State Street Global Advisors*	**Market:** Low **Inflation:** High	Outperform the Lehman Brothers Intermediate Government/Credit Bond Index.	State Street Global Advisors Intermediate Bond Fund (composed of high-quality bonds with an average credit rating of AA to BBB by Standard & Poors with maturities of 1 to 9.9 years)

Benchmarks:

S&P 500 – A weighted average index composed of approximately 500 large capitalization stocks representing about 89 percent of the market value of publicly traded U.S. stocks and non-U.S. companies whose stocks trade in the U.S. that provides exposure to broad market investments.

Russell 1000 Growth Index – A weighted average index composed of approximately 500 large capitalization stocks representing about 45 percent of the market value of publicly traded U.S. stocks that provides exposure to growth investments.

Russell 1000 Value Index – A weighted average index composed of approximately 700 large capitalization stocks representing about 45 percent of the market value of publicly traded U.S. stocks that provides exposure to value investments.

Russell 2000 Index – A weighted average index composed of approximately 2,000 small capitalization stocks representing about seven percent of the market value of publicly traded U.S. stocks that provide exposure to broad market investments.

Key Terms:

Guaranteed Investment Contracts (GIC) – A contract under which the 401(k) Savings Plan agrees to deposit a sum of money with an insurance company in return for a stated rate of interest for the contract term and permits withdrawals for certain events.

Structured Investment Contracts (SIC) – A contract issued by a bank, insurance company or other issuer which allows the 401(k) Savings Plan to own a portfolio of one or more bonds and permits withdrawals for certain events.

For details about your rights regarding investments in Company stock, see "Notices of Your Rights Concerning Employer Securities" on page 51.

Fund Name	Risk	Objective	Fund Investments Include...
Interest Income Fund *Managed by T. Rowe Price Stable Asset Management*	**Market:** Low **Inflation:** Low	Generate a modest rate of return while preserving the value of your investment	Fixed income instruments, such as contracts issued by insurance companies, banks, and other financial institutions, and contracts supported by high-quality bonds such as U.S. government agency borrowings, asset-backed securities, corporate debt, guaranteed investment contracts (GIC) and structured investment contracts (SIC)
Penney Common Stock Fund* *Managed by State Street Bank and Trust*	**Market:** Very high **Inflation:** Low	Give participants an opportunity for ownership in the Company and for participation in the investment performance of Penney Common Stock	Shares of Penney Common Stock and cash (the return of the fund may not be identical to that of Penney Common Stock due to the cash investment)

** Insider trading restrictions apply to the sale and/or transfer of Company stock. See "Insider Trading Policy" on page 51.*

Tier 3 Funds

Tier 3 is comprised of the 10 mutual funds listed below. Each fund represents diversified investments in U.S. stocks, non-U.S. stocks, or other types of securities, companies of different sizes and different characteristics. These funds allow participants to access certain retail funds managed by some commonly known mutual funds that have a potential to produce a better return than the different investment markets.

Fund Name	Risk	Objective	Fund Investments Include...
Fidelity Dividend Growth Fund	**Market:** Moderate to high **Inflation:** Low	Provide long-term capital growth by capturing the equity return of larger companies in the U.S. stock market and diversified exposure to broad market investments	Primarily U.S. common stocks (see the fund prospectus at www.fidelity.com)

Fund Name	Risk	Objective	Fund Investments Include...
T. Rowe Price Blue Chip Growth Fund	**Market:** Moderate to high **Inflation:** Low	Provide long-term capital growth and income by capturing the equity return of larger and medium-sized companies in the U.S. stock market and diversified exposure to broad market investments	Primarily U.S. common stocks (see the fund prospectus at www.troweprice.com)
American Century Growth Fund Investor Class	**Market:** High **Inflation:** Low	Provide long-term capital growth by capturing the equity return of larger companies in the U.S. stock market and diversified exposure to growth investments	Primarily U.S. common stocks (see the fund prospectus at www.americancentury.com)
Vanguard Growth Equity Fund	**Market:** High **Inflation:** Low	Provide long-term capital growth by capturing the equity return of larger companies in the U.S. stock market and diversified exposure to growth investments	Primarily U.S. common stocks (see the fund prospectus at www.vanguard.com)
Vanguard Equity Income Fund Admiral Shares	**Market:** Moderate to high **Inflation:** Low	Provide long-term capital growth and a high level of income by capturing the equity return of larger companies in the U.S. stock market and diversified exposure to value investments	Primarily U.S. common stocks (see the fund prospectus at www.vanguard.com)
T. Rowe Price Small-Cap Stock Fund	**Market:** High **Inflation:** Low	Provide long-term capital growth by capturing the equity return of smaller companies in the U.S. stock market and diversified exposure to small-cap broad market investments	Primarily U.S. common stocks (see the fund prospectus at www.troweprice.com)
Dreyfus Founders Discovery Fund Class R	**Market:** High **Inflation:** Low	Provide long-term capital growth by capturing the equity return of smaller companies in the U.S. stock market	Primarily U.S. common stocks (see the fund prospectus at www.founders.com)

Fund Name	Risk	Objective	Fund Investments Include...
T. Rowe Price Small-Cap Value Fund	**Market:** High **Inflation:** Low	Provide long-term capital growth by capturing the equity return of smaller companies in the U.S. stock market	Primarily U.S. common stocks (see the fund prospectus at www.troweprice.com)
American Century International Growth Fund Investor Class	**Market:** High **Inflation:** Low	Provide long-term capital growth by capturing the equity return of companies in the international stock markets	Primarily non-U.S. common stocks (see the fund prospectus at www.americancentury.com)
Fidelity Diversified International Fund	**Market:** High **Inflation:** Low	Provide long-term capital growth by capturing the equity return of companies in the international stock markets	Primarily non-U.S. common stocks (see the fund prospectus at www.fidelity.com)

Unit of Participation

When you invest in one of the funds offered under the 401(k) Savings Plan, you are buying a "unit of participation" in the fund itself, not the underlying investments. Each unit of participation bears a portion of the fund's gains, losses, income and expenses. The value of a unit of participation changes daily based on the market price of the assets (dividends, interest and securities sold but not yet settled) in the fund minus liabilities (plan expenses and securities bought but not yet settled).

The number of units of participation you have in an investment fund increases based on your deposits and other transactions such as loan repayments and transfers into that fund. The number of units decreases based on transactions that reduce the cash in that fund, such as loans, transfers out of the fund, or withdrawals.

Your actual investment results will depend on how your selected investment funds perform and the fees you are charged.

Note: The trustee, in its discretion or as directed by an investment manager, may limit the daily volume of its purchases or sales of securities, and as a result, may limit the 401(k) Savings Plan's transactions in any or all of the 401(k) Savings Plan's investment funds. The trustee may not complete Savings Plan transactions on a particular day for a number of reasons, including, but not limited to, suspension of trading in an asset important to one of the investment funds, insufficient liquidity within any investment fund to process transactions, or a major market disruption. As a result, there may be a delay in accepting and/or executing a participant's transactions for one or more days.

Historical Performance of Investment Funds

As of December 31, 2005

Fund Name	1 Year	3 Years	5 Years	10 Years
Tier 1				
Aggressive Fund	7.80%	17.40%	1.90%	8.20%
Moderate Fund	5.70%	12.70%	3.10%	7.80%
Conservative Fund	4.40%	9.80%	3.80%	7.30%
Horizon Fund	3.20%	6.90%	4.50%	6.90%
Tier 2				
S&P 500 Fund	4.70%	14.10%	0.50%	9.10%
Russell 1000 Growth Fund	4.90%	12.80%	-3.60%	6.70%
Russell 1000 Value Fund	6.90%	17.20%	5.20%	10.90%
Russell 2000 Fund	4.30%	21.50%	8.00%	9.20%
EAFE Fund	13.30%	23.10%	3.70%	5.50%
Intermediate Bond Fund	1.40%	2.70%	5.30%	5.70%
Interest Income Fund	4.30%	4.40%	5.00%	5.60%
Penney Common Stock Fund	34.70%	35.40%	39.90%	4.60%
Tier 3				
Fidelity Dividend Growth Fund	3.50%	10.60%	0.70%	11.10%
T. Rowe Price Blue Chip Growth Fund	5.90%	14.50%	-0.50%	9.10%
American Century Growth Fund Investor Class	4.80%	12.80%	-2.90%	7.20%
Vanguard Growth Equity Fund	7.90%	16.30%	-4.60%	7.30%
Vanguard Equity Income Fund Admiral Shares	4.50%	14.20%	N/A	N/A
T. Rowe Price Small-Cap Stock Fund	8.40%	19.50%	9.30%	12.10%
Dreyfus Founders Discovery Fund Class R	-0.40%	14.80%	-3.50%	N/A
T. Rowe Price Small-Cap Value Fund	8.70%	23.10%	17.40%	14.20%
American Century International Growth Fund Investor Class	13.30%	17.90%	-0.60%	8.20%
Fidelity Diversified International Fund	17.20%	25.90%	9.50%	12.90%

Important Information About the Fund Performance Chart

- Historical performance for all funds except Interest Income represents the gain or loss of value plus dividends and other earnings.
- Historical performance of the Interest Income Fund represents the interest earned in the fund.
- The returns listed above for the Horizon, S&P 500, Russell 1000 Growth, Russell 1000 Value, Russell 2000, EAFE, and Intermediate Bond Funds do not include the effect of investment management fees and administrative fees for operation of the 401(k) Savings Plan.
- The returns for the mutual funds listed under Tier 3 do not include the effect of administrative fees for the operation of the 401(k) Savings Plan, but are net of investment management fees.
- Past performance is not a guarantee, and not necessarily an indication of future returns. The Company or the 401(k) Savings Plan does not guarantee investment results.

Can I change my investment elections?

You can change the amount you deposit, your investment election or make transfers at any time. Simply log on to Your Benefits Homepage or www.jcpenneypowerline.com.

Additional Points to Consider

- The Interest Income Fund is invested in contracts with insurance companies, banks, and other financial institutions that pay a stated rate of return, so that the fund's rate of return tends to vary less than for stocks and bonds. Investments in this fund are affected by the financial stability of the GIC contract issuers, the performance of the underlying SIC assets, and the ability of the SIC provider to make required payments.
- The Moderate, Conservative, and Horizon Funds are balanced funds which seek to balance the volatility (potentially rapid changes in market value) and growth potential of stocks with investments in bonds, which generally provide a less volatile return. Balanced funds historically have provided higher returns over time than fixed income funds, but they have provided lower, less volatile returns than stock funds.
- Combining U.S. and non-U.S. stocks provides broad exposure to the world's stock markets. Including non-U.S. stocks also reduces peaks and valleys of changes in investment value, because international markets may change independently of U.S. markets.
- With an investment in Penney Common Stock, you have the potential rewards and risks of investing in a single stock. As a stockholder, the return on your investment depends on the Company's performance. This fund has the highest market risk of all funds in the 401(k) Savings Plan because it is not a diversified investment — it invests only in one company's stock. Single investment returns can swing widely up or down.
- Dividends on the Penney Common Stock in your 401(k) Savings Plan account — vested and non-vested — will be held in your 401(k) Savings Plan account throughout the year, and then automatically will be paid to you in cash once each year unless you elect to leave the dividends invested in your 401(k) Savings Plan account. See "Annual Dividend Payout."
- It is important to remember that mixing different types and amounts of investments — stocks, bonds or stable values — is not the only investment decision you will need to make. You will need to decide if you want funds that invest in all the holdings in an index, which means passively managed, like the index funds in Tier 2. Or, you can decide if you want to invest in funds that are actively managed, which means that the fund manager has the discretion to buy and sell stocks, bonds or other types of securities, like the mutual funds in Tier 3. Keep in mind that you can invest in any of the funds in Tier 1, 2 or 3, so you could invest in both passively managed funds and actively managed funds. Also, if you don't know how to mix the different types of investments and want to match the returns of different investment markets, the lifestyle (Tier 1) funds have created four different mixes of investments for you.

- Historical return performance and risk levels are not guarantees, and not necessarily indicative, of future results. Decisions you make for the investment of your accounts in the 401(k) Savings Plan are yours and yours alone. Neither the plan trustee, plan administrator, nor the Company recommends one investment fund over another.

Dividends on JCPenney Stock

As a participant, you can earn cash dividends on the shares of Penney Common Stock in the plan by electing to invest some or all of your deposits and Company contributions in the Penney Common Stock Fund. If you invest in the Penney Common Stock Fund and the fund earns dividends, your account is credited once each calendar quarter.

The payment of Penney Common Stock dividends and the amount of the dividend are subject to change at any time by the Company's Board of Directors. Dividends credited to the Penney Common Stock Fund (except dividends paid on retirement account contributions) in your account during the year are paid out to you in cash once a year or reinvested in the Penney Common Stock Fund, based on your election or join date.

The annual dividend on Penney Common Stock in 2006 was 0.665¢ per share. Currently, amounts in the Penney Common Stock Fund are credited with dividends once each calendar quarter. To be eligible for a quarterly dividend, you must be invested in the Penney Common Stock Fund when the stock market closes on the day before the "ex-date."

Annual Dividend Payout

Dividends on your investments in the Penney Common Stock Fund (except for retirement account contributions) will either be:

- Paid to you in cash once each year, or
- Reinvested in the Penney Common Stock Fund.

If you do not actively choose how your dividends will be paid, your dividends will be paid based on when you joined the 401(k) Savings Plan:

If you joined the Plan ...	Your dividends will be ...
Before January 1, 2003	Automatically paid to you in cash
On or after January 1, 2003	Automatically reinvested in the Penney Common Stock Fund

Key Terms:

Dividend – A payment made to the shareholders of a company from the company's profits.

Ex-Dividend Date or Ex-Date – The day immediately following the day in each calendar quarter that a shareholder must own Penney Common Stock in order to receive the quarterly dividend.

To avoid missing important information about your JCPenney benefits, you should update your address as soon as possible if it changes. If you are an active Associate, you are responsible for reporting all address changes to the Company. If you are a former associate you must contact PowerLine to update your address. You can reach PowerLine by logging on to www.jcpenneypowerline.com.

Here are some rules you should know about the dividend payout:

- **Dividends earned on retirement account contributions** are not subject to a dividend payout election and will be automatically reinvested in the Penney Common Stock Fund.
- **If the quarterly dividend amount is less than $5,** it will be automatically reinvested regardless of your dividend payment election.
- Your current dividend payment election on file applies to all future dividends until you change your election.
- If you elect to have your dividends paid to you in cash, you are electing to have your dividends held in a temporary clearing account and any investment earnings will be applied towards total expenses of the plan.

Changing Your Dividend Payout Election

You can change your dividend election at any time, but that payment election will apply only to future dividend payments. The dividend election deadline for Penney Common Stock is 12:00 am (midnight) Central time on the day before the ex-dividend date. The dividend payment election you have on file as of the deadline will determine how your dividend is paid. You cannot make any changes to your payment election on the ex-dividend date. Dividends you leave invested in your account will not be eligible for payout on any later dividend payout date.

To change your dividend election, log on to Your Benefits Homepage or www.jcpenneypowerline.com.

Dividend Payout Date

The dividend payout date generally occurs 10 business days after November 15.

Your Dividend Payout Amount

Before you decide about your dividend payout, you may want to estimate your dividend amount. To find out the amount of dividends added to your account in the current year, log on to Your Benefits Homepage or www.jcpenneypowerline.com.

If you were a 401(k) Savings Plan participant in the prior year, your annual statement can also help you estimate your dividend amount for the current year. Of course, it will not reflect any investment changes you have made since the statement was issued or changes by the Board in the dividend amount.

Receiving Cash Dividends

If your payout is made in cash, it will be deposited directly into your bank account if:

- You are an active Associate currently receiving direct deposit of your paycheck, or
- You are a former Associate with an account balance in the 401(k) Savings Plan and you are receiving direct deposit of another JCPenney retirement benefit.

If you do not have direct deposit information on file with the Company, a check will be mailed to your home address on record. Be sure to keep your address up to date with the Company.

- If you are an active Associate, you must use the Associate Kiosk to update your address.
- If you are a former Associate, you can log onto www.jcpenneypowerline.com to update your address. You may also call PowerLine at 1-888-890-8900.

To Set Up Dividend Payout Direct Deposits

- If you are an active Associate, you must set up direct deposit by logging on to the Associate Kiosk.
- If you are a former Associate, log on to www.jcpenneypowerline.com or call PowerLine at 1-888-890-8900.

When Your Employment Ends

If You Leave Your Account in the 401(k) Savings Plan – Dividends on any amount invested in the Penney Common Stock Fund in your account will either be paid directly to you in cash on the dividend payout date or left invested in your account, depending on your dividend payout election on the day before the ex-dividend date.

If You Take Your Account Out of the 401(k) Savings Plan – Your account will be paid to you in different ways based on when you take a distribution from the 401(k) Saving Plan.

If you take a distribution of your account **before the annual dividend payout date** and you:

- **Have your dividends paid in cash –** You will receive two separate distributions. **Example:** Assume your vested balance is $400. This account balance includes $100 in dividends for the current year. You would receive one distribution of $300 (your vested account balance) and a second distribution of $100 (the dividend amount).
- **Have your dividends reinvested –** You will receive your dividends along with the vested balance of your account all in one distribution.

If you take a distribution of your account **after the annual dividend payout date,** you will receive the vested balance of your account and your dividends all in one distribution. Your dividend payout election will have no effect on your distribution.

The taxable portion of your distribution can be rolled into an Individual Retirement Arrangement (IRA) or another employer's qualified plan. For more information, see the "Rollover" section.

Dividend Income for Tax Purposes

Dividend amounts are treated as taxable income when they are paid directly to you. This means that any cash dividend payment you receive will increase your total taxable income for the year. However, the Company does not withhold income taxes on dividend payouts. You may wish to adjust your payroll withholding on Form W-4 to avoid IRS penalties for underpayment of income tax.

For any calendar year in which you receive a cash dividend payout from the 401(k) Savings Plan, you will receive a Form 1099-DIV for use in preparing your income tax return(s) for the year.

Key Terms:

Individual Retirement Arrangement (IRA) – A personal savings plan which allows you to set aside money for retirement, while offering you tax advantages.

How Dividends Are Applied to Your Account

To be eligible for dividends, you must have units of participation in the Penney Common Stock Fund on the ex-date.

Example: Let's say the Company declares a quarterly dividend of $.15 per share and there are 19.6 million shares in the fund. The fund receives $2.94 million (19.6 million shares x $.15 per share) from the Company for the quarterly dividend.

The dividend amount you earn is based on the proportion of your units of participation to the total units of participation in the fund when the stock market opens on the "ex-dividend date" or "ex-date."

How Dividends Are Calculated

$$\frac{\text{Your Units of Participation}}{\text{Total Units of Participation}} \times \text{Total Dividend Amount} = \text{Your Dividend Amount}$$

Example: Assume you have 60 units of participation, and there are a total of one million units of participation in the fund, here's how your dividend amount in calculated:

$$\frac{60}{1{,}000{,}000} \times \$2{,}940{,}000 = \$176.40$$

Your dividend amount of $176.40 is added to your account.

Managing Your Account

You can closely manage your 401(k) Savings Plan account and get help making your investment choices by using an online tool provided by Financial Engines. With the tool, you can see examples of different investment options. You can also determine if your current rate of deposit is enough to meet your retirement goals. You can access the Financial Engines tool on Your Benefits Homepage or www.jcpenneypowerline.com.

Keeping Track of Your Account

You may check the value of your account at any time by logging on to Your Benefits Homepage or www.jcpenneypowerline.com.

In addition, you will receive an account statement once a quarter. You may log on to Your Benefits Homepage or www.jcpenneypowerline.com, or call PowerLine at any time to request an account statement. For the applicable period, the statement will show:

- Your beginning and ending balances
- Your before-tax, after-tax and rollover deposits
- Any matching contributions
- Any rollover deposits

- Investment gains (or losses)
- Transfers among investment funds
- Withdrawals
- Loans, and
- Loan repayments.

If you believe any information on your statement is not correct, you must write to PowerLine within 60 days (see "Administrative Information" for the address). If you do not report errors within 60 days, you may lose the right to have corrections made to your account.

Changing Your Investment Election

You can change the amount you deposit and how your deposits are invested at any time. Simply log on to Your Benefits Homepage or www.jcpenneypowerline.com.

Transfers Among Investment Funds

Once each day, you may transfer (in any whole percentage) the value of all or part of your deposits and Company contributions in the 401(k) Savings Plan from one investment fund to another.

How Your Account is Valued

The value of your account is determined each day that the stock market is open. You may check your account value at any time by logging on to Your Benefits Homepage or www.jcpenneypowerline.com.

Fund Valuation

The fund's trustee determines the value of each fund (except the Interest Income Fund) by totaling the market value of the underlying investments, cash, and receivables (for dividends, interest, and securities sold but not yet settled) minus liabilities (costs for securities bought but not yet settled and plan expenses).

In the Interest Income Fund, the market value will normally be the book value of the GICs and SICs, including receivables for accrued interest after 401(k) Savings Plan expenses have been subtracted. Each participant owns a share of the value of each fund based on:

- When they invested in the fund, and
- How much money they have invested in the fund.

How the Penney Common Stock Fund Is Valued

When you invest in the Penney Common Stock Fund, you buy "units of participation" in the fund, not individual shares of Penney Common Stock. The value of a unit of participation changes daily based on the market price of Penney Common Stock, and the fund's gains, losses, income and expenses. The unit value is also affected by the price at which stock is bought or sold by the fund for reinvestment of dividends and for transfers, loans, withdrawals and distributions from participants' accounts.

The following example shows how the value of a unit of participation is determined.

Example: Assume that on January 1, the assets of the Penney Common Stock Fund total $1 billion. The fund is made up of 19.6 million shares of Penney Common Stock at a market price of $50 per share (19.6 million shares x $50 per share = $980 million) plus $20 million in cash. There are one million units of participation in the fund. Therefore, the value of each unit of participation on January 1 is $1,000 ($1 billion ÷ one million units).

Assume you have 60 units of participation in the fund. If you log on to Your Benefits Homepage or www.jcpenneypowerline.com to find out your account balance, you will be told that your balance in the Penney Common Stock Fund is $60,000 (60 units x $1,000 value per unit) and that you have 1,200 "equivalent shares" ($60,000 ÷ $50 per share). This does not mean you have 1,200 actual shares in your account — you have $60,000 in value, which is the equivalent of 1,200 shares when the market price is $50 per share.

If the market price of Penney Common Stock increases to $55 per share, the value of the fund will increase to $1,098,000,000 (19.6 million shares x $55 per share + $20 million cash). Each unit of participation in the fund will be worth $1,098 ($1,098,000,000 ÷ one million units.). The value of your 60 units of participation will increase to $65,880 ($1,098 per unit x 60 units). This is the equivalent of 1,198 shares ($65,880 ÷ $55 per share) when the market price is $55 per share, compared to 1,200 equivalent shares when the market price was $50 per share.

Key Terms:

Equivalent Shares – The dollar value of your investment in the Penney Common Stock Fund is expressed in "equivalent shares." This represents the number of shares of Penney Common Stock you could buy at the current market price.

When Your Account is Valued

After the New York Stock Exchange ("the stock market") closes each day, the value of your account is calculated ("valued") to determine the balances reported through PowerLine and on your account statement.

Anytime you make a transfer of investments or request a payment from the 401(k) Savings Plan, the date used to determine the value of that transaction depends on when your completed request is received and why the payment is being made. If you complete your transaction before the stock market closes, the transaction is valued after the market closes on the same day. If you complete your transaction after the stock market closes, your transaction is valued at the end of the next day the stock market is open. Generally, the stock market closes at 3 p.m. Central time, Monday through Friday.

When You ...	Your Transaction is Valued ...
Make a transfer or take a loan, distribution, or withdrawal (except a financial hardship withdrawal) from the plan	After the stock market closes on the day you complete your transaction, if your transaction is completed before the stock market closes. If your transaction is completed after the stock market closes, your transaction is valued at the end of the next day that the stock market is open.
Receive a dividend payout once each year	When the stock market closes on the Friday on or after November 15.
Take a financial hardship withdrawal	When your properly completed hardship withdrawal forms are processed by PowerLine.
Leave the Company and request monthly payment of at least $100 (available only to fully vested Associates who have terminated employment)	On the 20th of the month (or next day on which the stock market is open).
Leave the Company and your vested account value is less than or equal to $1,000	Approximately 45 days from the statement date shown on your automatic payment notice.
Receive a minimum distribution payment when you reach age 70 1/2 and are no longer working for the Company	Generally about three weeks before December 31.
Die	When PowerLine processes the distribution request after receiving all required documentation.

Loans, Withdrawals and Distributions

Loans

401(k) Savings Plan loans give you access to your retirement savings without taking a taxable withdrawal. You may borrow from your before-tax, rollover, and after-tax deposits only while you are an active participant in the 401(k) Savings Plan and you are receiving current pay. You cannot take a loan to purchase Company stock.

Loan Amount

You may have up to two loans outstanding at a time from the 401(k) Savings Plan. You will not receive a second loan if payment on your first loan is not current. If you already have two loans and need a new one, you must pay off an existing loan before you can take out a new loan. As soon as your final payment is posted, you may request a new loan.

The minimum loan amount is $500. The maximum loan amount is the lesser of:

- The value of your before-tax, rollover and after-tax deposits on the valuation date
- 50 percent of your total vested account value on the valuation date, or
- $50,000 minus the highest balance of any other loans you owed to the 401(k) Savings Plan during the previous 12 months.

You may choose which investment funds in your account the loan amount is taken from. Otherwise, the loan amount will be taken from the funds in your account in the same proportion that they are invested in your account.

Your loan is taken first from your before-tax deposits, then from any rollover deposits, and last from any after-tax deposits.

If the loan you request is more than what is available in your account, the maximum available amount will be loaned to you. Also, the plan administrator has the right to limit your loan to the amount you can afford to repay through payroll deduction.

Applying for a Loan

To request a loan, log on to Your Benefits Homepage or www.jcpenneypowerline.com. Your check and loan agreement will be mailed to your home generally within seven to ten business days. By endorsing the check, you are agreeing to the terms of the loan agreement.

Loan Interest Rate

The loan interest rate is set on the 15th of each month for loans taken in the next calendar month. If the 15th of the month falls on a weekend or holiday, the rate will be set on the next business day. The rate for loans from the 401(k) Savings Plan is the prime rate plus one percent. The prime rate used will be the rate published in the Wall Street Journal. The interest rate for the term of your loan is the 401(k) Savings Plan rate in effect on the day you log on to Your Benefits Homepage or www.jcpenneypowerline.com and complete your loan request.

Can I borrow money from my account?

You may borrow from your before-tax, rollover, and after-tax deposits only while you are an active participant in the 401(k) Savings Plan and you are receiving pay.

Repaying Your Loan

Loan payments are made through after-tax payroll deductions. You may choose a repayment period as short as 12 months or as long as 54 months. You repay the loan amount plus interest into your own account. Your loan payments are reinvested in your accounts based on your investment elections in effect at the time of payment. Your payments will restore the savings used for your loan in this way — first your before-tax deposits are reimbursed, next your rollover deposits are restored, and finally your after-tax deposits are repaid.

You may repay the total outstanding balance of your loan early without penalty. To find out the payoff amount of your loan and the payoff procedures, log on to Your Benefits Homepage or www.jcpenneypowerline.com. If the amount of delinquent loan payments totals an amount equal to three normal monthly repayment amounts, your loan goes into default and the balance becomes payable in full. The unpaid loan amount is treated as a distribution of taxable income from the 401(k) Savings Plan — except for any after-tax deposits it includes. If you are behind on loan payments or your loan is in default, you cannot take out another loan until your payments are current or your defaulted loan has been repaid. You will be issued a Form 1099-R by the 401(k) Savings Plan for the year in which the loan is defaulted.

If you terminate employment and are rehired within 60 days and have not repaid your loan, your repayments will begin automatically and will include any payments that have been missed.

If Your Employment Ends

If your employment ends, you must pay your loan in full within 45 days after your employment ends. If you do not repay the loan within 45 days, it will be treated as a distribution and the taxable portion of your remaining loan is reported to the IRS as income for the year in which your loan is defaulted.

However, if your employment ends because your work unit or the type of work you do has been discontinued, as determined by the Company, you may be allowed to continue your loan repayments. You will receive information from PowerLine on how to request continued repayments if this affects you.

If you die before your loan is repaid, the taxable portion of your loan will be taxable to your estate.

Payments While on Military Leave of Absence

If you have an outstanding loan or loans, PowerLine automatically sends loan repayment coupons after they are notified of your Active Duty Military Leave effective date.

Effective December 19, 2003, all Associates called to active duty will receive a six percent interest rate on loans incurred prior to their active duty status and any excess interest will be forgiven if the Associate provides written notice to PowerLine and a copy of their military orders calling them to active duty. In addition, any defaulted loan amount or deemed distribution will not include any interest over a six percent interest rate.

Is there any relief for Associates affected by the 2005 hurricanes?

Special relief for plan loans or withdrawals may be available for participants who were impacted by the 2005 hurricanes. Call PowerLine at 1-800-890-8900 for more information.

Can I withdraw money from my account?

You may be able to take a withdrawal from your account as long as you are employed by the Company, but you cannot withdraw deposits during the same calendar year they are made. For more information about withdrawing money from your account, contact PowerLine.

Payments While on Other Leaves of Absence

During a leave of absence, you must continue your loan payments. If you are on an unpaid leave of absence, you will receive payment coupons from PowerLine showing the amount and date on which each payment is due.

Withdrawals While You Are an Associate

The 401(k) Savings Plan is designed as a long-term savings program, but you may be able to take a withdrawal while you are still employed by the Company or a participating employer. You cannot withdraw deposits during the same calendar year they are made.

Withdrawal Amount and Sources

The minimum amount you may withdraw from your account is:

- $100, or
- Your available withdrawal amount, if less than $100.

You may choose which investment funds in your account the withdrawal amount is taken from. Otherwise, the withdrawal amount will be taken from the funds in your account in the same proportion that they are invested in your account.

Subject to 401(k) Savings Plan limits, your withdrawal amounts are taken first from your after-tax deposits, then from your rollover deposits, and last from your before-tax deposits. However, you may be able to change this sequence in certain situations. You cannot withdraw deposits in the same calendar year they are made. For more information, talk to a PowerLine specialist by calling 1-888-890-8900.

Withdrawing Your After-Tax and Rollover Deposits

You may withdraw from your after-tax deposits, rollover deposits and the earnings from those deposits at any time. The most you may withdraw is the amount of your after-tax and rollover deposits on the date your account is valued, not including your after-tax deposits made during the current calendar year.

The tax laws make a distinction between a withdrawal of the after-tax deposits made before 1987 and those made during or after 1987. Withdrawals of after-tax deposits made during or after 1987 will be treated as partly your deposits and partly earnings. The portion considered earnings is taxable as ordinary income and may be subject to a 10 percent early withdrawal penalty tax, depending on your age and the reason for the withdrawal. For more information, see "Important Tax Information" later in this book.

Withdrawing Your Before-Tax Deposits

Because of the special tax advantages of before-tax deposits, the government allows you to withdraw them during employment only if you have a "severe financial hardship" (as described on the next page) or after you reach age 59 1/2. The maximum amount you may withdraw is the amount of your before-tax deposits on the date your account is valued, not including your before-tax deposits made during the current calendar year.

Financial Hardship Withdrawals

The IRS has specific rules about financial hardship withdrawals. You must provide acceptable proof that you have a severe financial hardship before your withdrawal can be approved. To qualify for a financial hardship withdrawal under IRS rules, you must:

- Need the money for an immediate and severe financial need
- Have no other funds available to you, your spouse, or your minor children to meet this need
- Withdraw only enough money necessary to meet this need

Financial hardship withdrawals are allowed to:

- Purchase your primary home (not including mortgage payments)
- Prevent eviction from or foreclosure on your primary home
- Pay higher-education tuition and room and board for the next 12 months for you, your spouse, or your dependent children
- Pay tax deductible medical expenses for you, your spouse, or your dependent children (if not paid by insurance)
- Pay for funeral expenses for a family member
- Pay expenses related to repair or damage to your primary home

Withdrawals After Age 59 1/2

When you reach age 59 1/2, you may withdraw some or all of the value of your after-tax, before-tax, and rollover deposits except you cannot withdraw deposits made in the current calendar year.

Withdrawals After Age 70 1/2

If your employment has not ended when you reach age 70 1/2, you may withdraw some or all of the value of your account, including the value of your after-tax, before-tax, and rollover deposits, as well as the value of Company matching contributions. You cannot withdraw deposits made in the current calendar year.

Applying for a Withdrawal

Log on to Your Benefits Homepage or www.jcpenneypowerline.com to request a withdrawal. In most cases, withdrawal requests — except for financial hardship withdrawals — can be processed through the Web site or by telephone. If you apply for a financial hardship withdrawal, you will first receive application papers. You must return the completed hardship application papers to PowerLine within 90 days. If your financial hardship withdrawal is approved, a check will be mailed to your home generally within seven to ten business days after your request has been approved. Your withdrawal request cannot be canceled after the valuation date.

Payment Rights Notice

By law, the Company must provide a Payment Rights Notice within 180 days before the date you take a withdrawal. The notice explains your payment options, your deferral rights, your rollover rights, and important tax information about your 401(k) Savings Plan payment. The notice applies to all withdrawals except a financial hardship withdrawal or a distribution from the 401(k) Savings Plan before you reach age 70 1/2. When you request a withdrawal (other than a financial hardship withdrawal) or distribution, if you have not received a Payment Rights Notice within the past 180 days, one will be sent to you immediately if you call PowerLine. The notice is also available online. You don't have to wait to receive the notice in the mail.

Form of Payment

Generally, withdrawals are paid in cash. But you may choose to receive all or part of your withdrawal — except a financial hardship withdrawal — in shares of Penney Common Stock. If you want your withdrawal as stock, you must call PowerLine at 1-888-890-8900 and speak with a PowerLine specialist.

Distributions

You or your surviving spouse can receive your vested account balance any time after you leave the Company or a participating employer. In certain cases, your account will be paid automatically to you or your beneficiary.

Your account can remain in the 401(k) Savings Plan when your employment ends only if your total vested account value (including dividends and outstanding loans) is more than $1,000.

If your account value is $1,000 or less at the time of the distribution, you will automatically receive a lump sum cash distribution of your vested account balance less any federal withholding.

You will be a plan participant until you have received all your vested benefits under the plan, even if you no longer work at the Company. If your account remains invested in the 401(k) Savings Plan after you leave the Company, you:

- Will receive quarterly account statements.
- May request a statement at any time by logging on to www.jcpenneypowerline.com.
- Cannot make new deposits or take a loan.
- Have the same rights as active Associates to make transfers among the investment funds.
- Can continue to receive cash payment of dividends based on your units of participation in the Penney Common Stock Fund unless you elect to leave them invested in your plan account.

Requesting Payment of Your Account

You (or your surviving spouse) may ask for payment of your account any time after your employment ends by logging on to www.jcpenneypowerline.com. If you die and your beneficiary is not your spouse, the value of your account will automatically be paid to your beneficiary as a lump sum distribution. Before you take a distribution, you will receive a Payment Rights Notice describing your payment options, your deferral rights, your rollover rights, and important tax information about your payment.

Deferral of Payments

When your employment ends, if your vested account balance (including dividends and outstanding loans) is more than $1,000, your balance will remain invested in the 401(k) Savings Plan until you take action. You can request a distribution or a rollover by logging on to www.jcpenneypowerline.com.

Payment Options

Your payment options depend on whether you are 100 percent vested in the value of your Company contributions when your employment ends.

If you are 100 percent vested, you may choose to receive your account balance as one or any combination of the following:

- A lump sum distribution
- Partial withdrawals (of at least $100) of your account at anytime, or
- Monthly payments of at least $100.

If you are not 100 percent vested, your only payment option is a lump sum distribution.

Lump Sum Distribution

If you request a single payment of the value of your account, you will be paid in cash unless you request payment in shares of Penney Common Stock, or a combination of both cash and Penney Common Stock. Please see information regarding rollovers on page 44.

Monthly Payments

If your employment ends and you are fully vested in your total account balance, you may choose to receive monthly payments of at least $100 from your account. You may cancel or change the amount of your monthly payment at any time.

Form of Payment

Generally, distributions are paid in cash. But you may choose to receive all or part of your distribution in shares of Penney Common Stock. If you want your distribution as stock, you must call PowerLine at 1-888-890-8900 and speak with a PowerLine specialist. You choose whether all or any portion of your account(s) will be paid in cash or in shares of Penney Common Stock.

To avoid missing important information about your JCPenney benefits, you should update your address as soon as possible if it changes. If you are an active Associate, you are responsible for reporting all address changes to the Company. If you are a former associate you must contact PowerLine to update your address. You can reach PowerLine by logging on to www.jcpenneypowerline.com.

Timing May Affect the Value You Receive

There will be a time delay between the date your employment ends and the date you are allowed to request payment of your account. There will also be a delay between the date you request payment and the date you receive any cash payment or requested shares of Penney Common Stock. Your account is valued when your payment request is processed.

The 401(k) Savings Plan does not pay interest for any period after your account is valued. If you request payment in shares of Penney Common Stock and the stock value decreases during these times, you do not owe the difference to the 401(k) Savings Plan. And, if the value of the stock increases, neither the 401(k) Savings Plan nor the Company owes you the difference. You will always receive the number of shares you are eligible to receive as of the date your account is valued.

Transfers into an IRA or Other Qualified Plan

You may transfer ("rollover") part or the entire eligible portion of your account directly into an IRA or another employer's qualified retirement plan. A rollover allows you to avoid paying current income tax and any penalty tax on the amount you transfer. You will need to provide certain information about your IRA or other plan to complete the transfer.

Transfers of 401(k) Savings Plan funds into an IRA or another employer's qualified retirement plan may be made either by logging on to Your Benefits Homepage or www.jcpenneypowerline.com, or by calling PowerLine at 1-888-890-8900 and speaking with a specialist. **Written rollover requests and/or forms will not be accepted.**

If You Cannot be Located

After you leave the Company, it is your responsibility to notify PowerLine if your address changes — either by logging on to www.jcpenneypowerline.com or by calling PowerLine at 1-888-890-8900. If we make a payment to you and the check is returned to PowerLine, your distribution amount will be transferred to a special account. This account does not pay interest or receive investment earnings. If you contact us later, you will be entitled to immediate payment of the amount previously distributed to you.

If You Are Rehired before Receiving all of Your Vested Balance

If you are rehired before a lump sum distribution is processed, the distribution will not be made. If you are receiving periodic payments from the 401(k) Savings Plan, your payments will stop. When your employment ends again, you must log on to www.jcpenneypowerline.com or call PowerLine at 1-888-890-8900 to receive further payment of your account.

If You Die before Receiving all of Your Vested Balance

If you die before receiving all of your account, your remaining vested account balance will be paid to your beneficiary. See "Naming A Beneficiary" later in this book.

General Information

The following useful information will help answer general questions about your 401(k) Savings Plan account.

Naming a Beneficiary

If you are married, your spouse is automatically your sole beneficiary. If you choose a beneficiary other than your spouse, a notary must witness your spouse signing the spousal consent section of the JCPenney 401(k) Savings Plan Beneficiary Authorization Form that you'll receive after you name your beneficiary(ies) either through Your Benefits Homepage or www.jcpenneypowerline.com, or by speaking with a PowerLine specialist.

If you are not married, you must name a beneficiary. If you marry after you join the 401(k) Savings Plan, your spouse automatically becomes your sole beneficiary instead of the person you previously named.

Because your spouse can keep your savings in the plan after your death, they may name a beneficiary to receive any remaining benefits in the event of their death. The account will remain invested in the 401(k) Savings Plan until he or she requests payment. He or she may choose any of the payment options available. Payment options are described earlier in this book.

If your beneficiary is not your spouse, the value of your account will automatically be paid to your beneficiary as a lump sum distribution as soon as administratively possible after your death.

If you haven't named a beneficiary at the time of your death, your account value will be paid as follows, depending on your marital status:

- If you're married, your account value will be paid to your spouse.
- If you're single, your account value will be paid to your estate.

Changing Your Beneficiary

You may change your beneficiary at any time, according to the rules on spousal consent described above. To request a Beneficiary Authorization Form log on to Your Benefits Homepage or www.jcpenneypowerline.com.

Filing a Claim

You must complete all levels of claims and appeals provided in this book before you can pursue an ERISA claim in court.

How to File a Claim

Your claim for eligibility to participate in the 401(k) Savings Plan or for benefits should be submitted on the Claim Initiation Form. You can request this form by calling PowerLine at 1-888-890-8900.

Key Terms:

Spouse – The individual of the opposite gender to whom a participant or former participant is legally married within the federal law.

Beneficiary – Any person, persons, or entity designated by a participant to receive any benefits payable in the event of the participant's death.

The Benefit Determination Review Team (BDRT) will respond to any claim for benefits or eligibility to participate within 60 days of receipt of the claim (or within 120 days when special circumstances require more time for a fair decision). The BDRT will notify you before the end of the initial 60-day period if an extension is needed to review your claim. An extension can be up to 60 days.

If your claim is denied, the BDRT will:

- Cite the 401(k) Savings Plan provision from this book on which the denial is based
- Advise you of any additional information you need to provide
- Advise you of the appeal rights related to your claim, and
- Advise you of your right to file suit under ERISA if your appeal is denied.

Filing an Appeal

How to File an Appeal

There is only one level of appeal for denied claims for eligibility to participate in the 401(k) Savings Plan or for benefits. The Benefits Administration Committee (BAC) will handle these appeals.

Only you, your representative, your beneficiary, or your estate's representative in the event of your death, have the right to submit an appeal for you. You may appeal in writing to the BAC to request a review of your denied claim for benefits or eligibility to participate in the 401(k) Savings Plan. You must file your appeal within 60 days from the date you receive notice of the denial of your claim. If you do not request an appeal of a denied claim within 60 days after you receive notice of your denied claim, no further action will be taken and you cannot request an appeal at a later date. The decision of the BAC is final and binding. A denial will cite the plan provisions on which the decision was based, notify you of your rights to receive on request any document or information relevant to your appeal and notify you of your right to file suit under ERISA. The BAC must notify you of its final decision in writing within 60 days after receipt of your written appeal or within 120 days when special circumstances require more time for a fair decision. You will be notified if an extension is needed.

Other Information About Your Account

Certain special situations may affect your account.

Resale Restrictions

There are no restrictions upon the resale of shares of Penney Common Stock distributed under the 401(k) Savings Plan, except in the case of any person who may be considered an "affiliate" of the Company, as defined in Rule 405 of the Securities Act. These individuals are not permitted to sell or offer to sell such shares of Penney Common Stock unless they are registered under the Securities Act or sold subject to the resale limitations of Rule 144 under the Securities Act or subject to another exemption from registration available under this Rule.

Generally, for these purposes, an affiliate of the Company is any person who, directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, the Company. Among others, the directors, executive officers and principal stockholders of the Company may be considered an "affiliate."

Sale of Shares Credited to Your Account

In the event of a tender offer for shares of Penney Common Stock, you may instruct the trustee whether to tender the shares subject to the offer credited to your account under the 401(k) Savings Plan. If the Purchase Rights (the "Rights") associated with shares of Penney Common Stock become exercisable, you may instruct the trustee regarding the exercise or sale of the Rights credited to your 401(k) Savings Plan account. If you instruct the trustee to tender shares that are subject to a tender offer, the trustee will do so.

Overpayment of 401(k) Savings Plan Payment or Distribution

If any information used to calculate your payment or distribution is not correct, your account will be adjusted to the proper amount when the error is discovered. You will be required to return any overpayment to the 401(k) Savings Plan, or your future payments from the 401(k) Savings Plan may be reduced to make up for the overpayment.

Important Tax Information

Tax Status of the 401(k) Savings Plan

The 401(k) Savings Plan is intended to qualify for special tax treatment under Sections 401(a), 401(k), 401(m), and 4975(e)(7) of the Internal Revenue Code ("the Code"), and the related trust is intended to be exempt from federal income tax under Section 501(a) of the Code. The Internal Revenue Service has determined that the 401(k) Savings Plan as originally adopted and the related trust qualify under those sections of the Code. If the 401(k) Savings Plan continues to be qualified, current tax considerations include, but may not be limited to, those described in this section.

General Tax Considerations

Your before-tax deposits, any rollover deposits, Company contributions, and income (including dividends) earned by the investment funds are not taxable to you (or your beneficiary) until the amounts are actually paid to you or your beneficiary. Your after-tax deposits are included in your taxable pay during the year you make after-tax deposits to the 401(k) Savings Plan. The Company is allowed a tax deduction for its contributions to the plan, and for dividends paid from the plan directly to participants or some dividends reinvested in the plan based in either case on the election of participants. The Company does not guarantee or promise any specific tax outcome.

Penalty Tax

A 10 percent non-deductible penalty tax applies to early distributions and withdrawals from the 401(k) Savings Plan. You must pay the penalty tax on your income tax return for the year in which the distribution or withdrawal is made. This tax is in addition to any other income taxes payable on a distribution or withdrawal.

The 10 percent penalty tax will not apply to:

- A distribution caused by your (1) separation from service at or after age 55, (2) disability, or (3) death
- A withdrawal of your eligible deposits after you reach age 59 1/2
- A withdrawal of your Company matching contributions after you reach age 70 1/2
- A distribution or withdrawal to pay for medical expenses allowable as a tax deduction
- A distribution of dividends on Penney Common Stock
- Amounts paid to a dependent or to a former spouse as directed by a court under a qualified domestic relations order (QDRO) within the meaning of Section 414(p)(1) of the Code
- Amounts distributed to pay an IRS levy
- Periodic payments you receive over your life expectancy or the combined life expectancies of you and your designated beneficiary, if the payments begin after you separate from service, or
- Amounts rolled over to an IRA or qualified plan within 60 days.

Tax on Lump Sum Distributions

A lump sum distribution is the payment, within one taxable year of your total account balance under the 401(k) Savings Plan after you reach age 59 1/2, or because you die or your employment ends. Generally, you will have to pay tax (either as ordinary income or under the special averaging rules described below) on the amount you receive from the 401(k) Savings Plan that is more than the total of:

- Your after-tax deposits, plus
- Any net unrealized appreciation in the Penney Common Stock you receive.

As an alternative, you may defer tax on a lump sum distribution by making a rollover as described below. Any taxable amount you receive that is eligible for rollover is subject to mandatory 20 percent federal income tax withholding. The tax withheld will be no greater than the amount of cash you choose to receive.

For Associates employed in Puerto Rico, the tax laws of Puerto Rico also require withholding on lump sum distributions.

Special Averaging Treatment

Depending on your circumstances, your distribution may be eligible for special income averaging treatment under current tax laws. For more information, consult your tax advisor.

Tax on Non-Lump Sum Distributions

A withdrawal or distribution that does not qualify as a lump sum distribution generally will be taxed as ordinary income. If you made after-tax deposits, a portion of each payment will be treated as a return of your after-tax deposits and will be excluded from your taxable income. Also, any net unrealized appreciation in the value of distributed Penney Common Stock purchased with your after-tax deposits will be excluded from your taxable income.

Minimum Annual Distributions

If your employment has ended, you must begin receiving a "minimum annual distribution" (see explanation below) from the 401(k) Savings Plan no later than April 1 of the year after the calendar year in which you turned age 70 1/2 and each December thereafter. The plan administrator has determined that your first payment from the 401(k) Savings Plan will be in December of the year in which you reach 70 1/2 unless circumstances beyond the plan administrator's control would result in a later payment.

If you do not elect a withholding rate (which may be zero), the taxable portion of a minimum distribution is subject to 10 percent federal income tax withholding. Minimum distributions are not eligible for rollover into an IRA or other qualified retirement plan.

By law, the minimum annual distribution is a payment that is based on paying out the full value of your account during your life expectancy. Your annual payment will be based on the joint life expectancy of you and your spouse, if you are married and your spouse is your primary beneficiary. If you are not married, your annual payment will be based on your life expectancy.

Rollovers

The tax results described earlier will not apply to any amounts you elect to "roll over" to an IRA or to a qualified retirement plan of another employer (qualified plan). In general, any distribution will be eligible for rollover except for:

- Minimum distributions required when you reach age 70 1/2 and your employment has ended
- Distributions paid at least annually over (1) your life expectancy, (2) the joint life expectancies of you and a beneficiary, or (3) a period of at least ten years
- Financial hardship withdrawals
- Defaulted loans treated as taxable distributions, and
- Dividends paid directly to you separate from your 401(k) Savings Plan distribution.

After-tax deposits are eligible for rollover if the institution or qualified plan where you are doing the rollover will accept after-tax deposits. Additionally, the portion of your distribution that represents earnings on your after-tax deposits is eligible for rollover.

Any amounts that are rolled over will not be currently taxable. If only part of your distribution is rolled over, the part of the distribution that is not rolled over is considered ordinary income and will not be eligible for special averaging treatment.

Before-tax amounts rolled over to an IRA will be taxed as ordinary income when distributed from the IRA and will not be eligible for special averaging treatment or, with respect to Penney Common Stock, for special treatment as net unrealized appreciation. A rollover to a qualified plan will preserve the eligibility for special averaging treatment upon distribution. Amounts rolled over to an IRA may be eligible for later rollover to a qualified plan (which would preserve your eligibility for special averaging treatment) if you set up a separate IRA to hold only your rollover from the 401(k) Savings Plan.

Your surviving spouse or beneficiary may elect, subject to certain restrictions and limitations, to roll over to an IRA all or a part of a lump sum distribution he or she receives on account of your death.

Direct Rollover or Trustee-to-Trustee Transfer

If you instruct PowerLine to transfer your distribution directly to an IRA or a qualified retirement plan, the mandatory 20 percent income tax withholding does not apply.

Indirect Rollover or 60-day Rollover

You will be subject to mandatory 20 percent income tax withholding on any amount eligible for rollover that you receive from the 401(k) Savings Plan, but the tax withheld will be no greater than the amount of cash you choose to receive. However, current income tax can be deferred on any amount you roll over to an IRA or another qualified plan within 60 days after you receive the distribution. If you roll over only the 80 percent you actually receive, you will be taxed on the 20 percent that was withheld. You can still decide to roll over up to 100 percent of your eligible rollover amount by replacing the 20 percent withheld with cash from other sources. But even if you make up the withheld amount and roll over 100 percent of the distribution amount, the 20 percent already withheld cannot be immediately refunded. Instead, it is treated the same as the taxes withheld on your wages.

Dividend Payouts

Dividends are not taxed until they are paid out of the 401(k) Savings Plan. You will be required to pay ordinary income tax on any cash dividend payout from the 401(k) Savings Plan. These dividends are not considered a "distribution" from the 401(k) Savings Plan for tax purposes, and therefore do not qualify for special tax treatment or rollover. There will be no Federal or state tax withholding deducted from your dividend payment. You are responsible for payment of the taxes when you file your tax return.

Financial Hardship Withdrawals

Generally, any before-tax amounts you receive as a financial hardship withdrawal are taxed as ordinary income and are subject to 10 percent tax withholding (unless you elect some other rate of withholding, or zero withholding). You will also pay a 10 percent non-deductible penalty tax unless you qualify for an exception (see Penalty Tax earlier).

Loans

Loans are generally not taxable unless your employment ends and you do not pay off your loan or your loan is defaulted. The interest you pay on a loan is not tax deductible.

Saver's Credit

The Economic Growth and Tax Relief Reconciliation Act (EGTRRA) of 2001 added the saver's credit which is an income tax credit that is available to eligible taxpayers who contribute up to $2,000 (as may be changed from time to time by law) to a retirement plan such as the 401(k) Savings Plan or to an IRA.

The saver's credit is a nonrefundable income tax credit for certain taxpayers with modified adjusted gross income that does not exceed $50,000 if married filing jointly ($25,000 if filing "single" or $37,500 if filing as "head of household"). It is equal to a specified percentage of certain employee deposits made to a qualified employer-sponsored retirement plan or of certain individual or spousal contributions to an IRA.

The amount of any credit eligible contribution is reduced by any taxable distributions received by the Associate or spouse during the "testing period." You should consult with your personal tax advisor for more information on the saver's credit or to find out if you are eligible.

Net Unrealized Appreciation

If you own Penney Common Stock that has grown in value from its original cost, you may want to consider this strategy for the distribution of the Penney Common Stock from the 401(k) Savings Plan. When shares of Penney Common Stock are distributed, any increase in value between the cost of the shares to the 401(k) Savings Plan and the market value at distribution is net unrealized appreciation ("NUA"). In a lump sum distribution, NUA is not taxable at the time of distribution. In a non-lump sum distribution, NUA on Penney Common Stock purchased with after-tax deposits is not taxable at the time of distribution, but NUA on shares bought with before-tax deposits, rollover deposits, or Company contributions will be taxable at the time of distribution.

When you sell or exchange the Penney Common Stock, any gain, up to the amount of the NUA not taxed when the shares were distributed, will be taxed as long-term capital gain. If the value of the shares increases further after you receive them, the excess will be treated as a long-term or short-term capital gain depending upon how long you hold the shares. As an alternative to excluding NUA, you may make an election on your income tax return to include NUA in the taxable amount. Making this election could possibly, but not necessarily, result in less tax, depending on factors such as how high the long term capital rate is relative to your effective income tax rate after averaging, and how long you would otherwise defer applying tax on the NUA by not selling the stock. The IRS may take the position that any partial distribution received after leaving the Company prevents a later distribution of Penny Common Stock from qualifying as a lump sum distribution. You may wish to consult your tax advisor about this complex issue.

Other Tax Considerations

Federal Estate Tax

The value of your undistributed account balance at your death is included in your gross estate for federal estate tax purposes. To the extent such benefits are payable to your spouse, they are generally eligible for the marital deduction. Also, you are generally entitled to a unified credit equal to a federal estate tax exemption (applicable exclusion amount), which under current tax law is $2,000,000 and is subject to change in future years.

State and Local Tax

The tax treatment of a distribution under state and local tax laws may differ from federal tax treatment. It is possible that certain tax elections available under federal law may have adverse state and local tax considerations. Also, at present, several states and localities tax a participant's before-tax deposits when contributed.

Federal, state and local tax laws are complex and may change from time to time. Therefore, you are strongly encouraged to consult with a qualified tax advisor familiar with your personal situation.

Plan Expenses

The cost of operating the 401(k) Savings Plan is currently charged to participants' accounts, but the actual amount charged may vary from year to year. The types of operating expenses for the 401(k) Savings Plan include, but are not limited to, mutual fund redemption fees, and fees paid to the investment managers, investment education providers, trustee and administrative service providers.

Certain mutual funds have instituted waiting periods between the time a participant exchanges (transfers in/out of the fund) out of a mutual fund, and exchanges back into the same fund as a means to control excessive trading. This restriction applies only to exchanges and not to deposits into the fund. For additional information about these funds, refer to the fund's prospectus or visit the fund's Web site which can be accessed through the Your Benefits Homepage or www.jcpenneypowerline.com.

Tier 1 and Tier 2 Funds

401(k) Savings Plan expenses are subtracted from the daily rate of return earned by each investment fund, based on the estimated percentage shown below. For this reason, the amount of fund expenses charged to your account is not tracked by the plan administrator and does not appear as a separate charge on your account statement.

Investment management fees (including brokerage commissions) are paid from the assets of the related investment fund. The investment management fee percentage is different for each investment fund. Estimated investment management fees for 2007 range from 0.005 percent to 0.120 percent.

Other operating and administrative expenses — such as the fees of the trustee and administrative service providers — are also paid from participants' accounts. In general, the assets of each investment fund are charged the same percentage. Each participant's account is reduced by the same percentage, regardless of the size of the account or the investment fund(s) chosen. For 2007, the estimated fee percentage for administrative expenses is 0.185 percent.

The participants' portion of total estimated 2007 operating and administrative expenses and investment management fees for the plan as a percentage of the assets in each investment fund is shown below. As you can see from the investment funds chart, the greatest annual expense charge of any fund is approximately 30¢ on each $100 invested. These expenses supersede any previous operating expenses communicated.

Funds	Estimated 2007 Total Administrative and Operating Expenses	Estimated 2007 Investment Management Fees	Estimated Total 2007 Annual Fee Percentage	Estimated Annual Participant Cost per $1,000 Balance
TIER 1 – LIFESTYLE FUNDS				
Aggressive	0.185%	0.060%	0.245%	$2.45
Moderate	0.185%	0.060%	0.245%	$2.45
Conservative	0.185%	0.060%	0.245%	$2.45
Horizon	0.185%	0.060%	0.245%	$2.45
TIER 2 – CORE FUNDS				
S&P 500	0.185%	0.005%	0.190%	$1.90
Russell 1000 Growth	0.185%	0.060%	0.245%	$2.45
Russell 1000 Value	0.185%	0.060%	0.245%	$2.45
Russell 2000	0.185%	0.060%	0.245%	$2.45
EAFE	0.185%	0.120%	0.305%	$3.05
Intermediate Bond	0.185%	0.050%	0.235%	$2.35
Interest Income	0.185%	0.052%	0.237%	$2.37
Penney Common Stock	0.185%	0.010%	0.195%	$1.95

If you invest in more than one fund, the total percentage of expenses charged against your account will be a blended rate for your investment funds. For example:

Example One: Assume that you had $10,000 invested in the Penney Common Stock Fund and $5,000 in the Interest Income Fund for the entire year. Your estimated annual cost on these amounts for 2006 would be:

Investment Fund	Fee %	Charge
Penney Common Stock Fund	0.195%	$19.50
Interest Income Fund	0.237%	$11.85
Combined Rate ($31.35 ÷ $15,000)	0.209%	$31.35*

**Since the expenses are charged daily, your actual annual cost will depend on the amount you have invested in each fund on a daily basis.*

Example Two: Assume that you had $100,000 invested in the Aggressive Fund and $25,000 in the Interest Income Fund for the entire year. Your estimated annual cost on these amounts for 2006 would be:

Investment Fund	Fee %	Charge
Aggressive Fund	0.245%	$245.00
Interest Income Fund	0.237%	$ 59.25
Combined Rate ($304.25 ÷ $125,000)	0.243%	$304.25*

**Since the expenses are charged daily, your actual annual cost will depend on the amount you have invested in each fund on a daily basis.*

Tier 3 Funds

Investment management expenses for the mutual funds are subtracted from the daily rate of return earned by each investment fund, based on the estimated percentage shown in the fund's prospectus. This means that the unit price (net asset value) you see will have already been adjusted for investment management fees. However, other operating and administrative expenses — such as the fees of the trustee and administrative service providers — are also paid from participants' accounts. Like the Tier 1 and 2 Funds, in general, the assets of each investment fund are charged the same percentage. However, this percentage is only charged once a month and will be paid by selling units out of your account. As a result, the other operating and administrative expense will appear as a separate charge on your account statement.

Funds	Estimated 2007 Total Administrative and Operating Expenses	Estimated 2007 Investment Management Fees	Estimated Total 2007 Annual Fee Percentage	Estimated Annual Participant Cost per $1,000 Balance
TIER 3 – MUTUAL FUNDS				
Fidelity Dividend Growth	0.185%	0.600%	0.785%	$7.85
T. Rowe Blue Chip	0.185%	0.850%	1.035%	$10.35
American Century Growth Inv. Class	0.185%	1.000%	1.185%	$11.85
Vanguard Growth Equity	0.185%	0.880%	1.065%	$10.65
Vanguard Equity Income	0.185%	0.190%	0.375%	$3.75
T. Rowe Small-Cap Stock	0.185%	0.920%	1.105%	$11.05
Dreyfus Founders Disc. A	0.185%	1.180%	1.365%	$13.65
T. Rowe Small-Cap Value	0.185%	0.840%	1.025%	$10.25
American Century Intl. Gwth. Inv. Class	0.185%	1.230%	1.415%	$14.15
Fidelity Diversified International	0.185%	1.070%	1.255%	$12.55

Redemption Fees

In addition to management fees, mutual fund companies are allowed to charge participants a "redemption" fee if a participant moves shares (money) in and out of a fund within a given time period (such as 30 or 60 days) as set by each mutual fund company for that particular fund. The redemption fee is kept by the mutual fund to help cover transaction costs that long-term investors may bear when the mutual fund sells securities to meet investor redemptions and is intended to help prevent abusive trading practices, such as excessive short-term trading.

The fee charged is a percentage of the amount redeemed or transferred. For purposes of the redemption fee, shares held the longest are treated as being redeemed first and shares held the shortest as being redeemed last.

Other mutual fund companies that 401(k) Savings Plan participants can invest in could initiate redemption fees at any time in the future. Please review the fund's prospectus if you need additional information.

Effective **October 1, 2005,** participants who exchange any amount out of any Vanguard mutual fund to another fund within the 401(k) Savings Plan must wait 60 calendar days before exchanging back into the same Vanguard fund. For additional information about this fund, refer to the fund prospectus or visit www.vanguard.com.

Effective **March 31, 2006,** participants who exchange any amount out of any T. Rowe Price mutual fund to another fund within the 401(k) Savings Plan must wait 60 calendar days before exchanging back into the same T. Rowe Price fund. For additional information about this fund, refer to the fund prospectus and/or visit www.troweprice.com.

Additional Information on Investment Funds

You may call PowerLine at 1-888-890-8900 to request that the information listed below be sent to your home address:

- Descriptions of any annual operating expenses that reduce the rate of return and the total amount of these expenses expressed as a percentage of average net assets
- Copies of any prospectuses, financial statements, reports, or other materials related to the investment funds that have been provided to the plan administrator
- A list of the assets in each investment fund and their value (or percentage of that fund)
- The past and current investment performance of each investment fund, net of expenses, and
- The value of your account in the 401(k) Savings Plan.

Plan Administration

This section provides information about special situations that may affect your benefits under the 401(k) Savings Plan.

If You Transfer Between Companies

If you transfer to a company owned by J.C. Penney Corporation, Inc. that has not adopted the 401(k) Savings Plan (a "non-participating employer"), you remain a plan participant and you continue to earn vesting service. See the "Vesting" section. However, you may not make deposits to the 401(k) Savings Plan, get Company contributions or take a final distribution of your benefits under the 401(k) Savings Plan.

If you transfer from a company owned by J.C. Penney Corporation, Inc. that has not adopted the 401(k) Savings Plan, your hours of service and service with that Company count toward your eligibility and vesting under the 401(k) Savings Plan.

Your Benefit Cannot be Assigned

Your benefit under the 401(k) Savings Plan generally may not be sold, assigned, transferred, pledged, or garnished, except under a qualified domestic relations order (QDRO) or an enforceable tax levy by the Internal Revenue Service. If a QDRO sets aside a portion of your benefit for payment to your ex-spouse or your children, send the order to PowerLine. If the domestic relations order is determined to be qualified, you will be notified in writing and you will have no further right to that portion of your benefit. If you would like to receive a free copy of the policy and procedures for the submission and approval of a domestic relations order, contact the Plan Sponsor at the address shown later in this section.

Plan Termination

Although the Company expects to continue the 401(k) Savings Plan, the Board of Directors of the Company has the right to terminate the 401(k) Savings Plan, in whole or in part, and/or to discontinue the Company's contributions to the 401(k) Savings Plan, at any time and for any reason. The 401(k) Savings Plan may be terminated by written resolution contained in the minutes of the Board of Directors taking such action.

Any company participating in the 401(k) Savings Plan also has the right to discontinue its participation in the 401(k) Savings Plan for its Associates.

If the 401(k) Savings Plan is terminated, or all Company contributions are permanently discontinued as determined by the Company, your account balance will become fully vested and cannot be forfeited. No termination or amendment of the 401(k) Savings Plan (except a court-ordered amendment) may affect any unpaid portion of any Company matching contribution for any prior year or deprive you of any benefits under the 401(k) Savings Plan to which you would otherwise be entitled.

Protection of 401(k) Savings Plan Assets

The assets of the 401(k) Savings Plan are held in a separate trust set up exclusively to pay 401(k) Savings Plan benefits and reasonable administrative expenses. All benefits are paid from the trust. The assets of the 401(k) Savings Plan are separate from the Company's assets and cannot be claimed by its creditors. Independent trustees and auditors monitor the trust funds to be sure the funds are properly managed.

Securities Information

Insider Trading Policy

As an active Associate, you may know of significant Company developments before they are announced to the public. If you have such inside (non-public) information about the Company, you and anyone you share the information with should not buy or sell Penney Common Stock (including changing amounts in the Penney Common Stock Fund) until the information has been made public. Trading on inside information can result in substantial civil and criminal penalties. Active Associates should refer to the online JCPenney Statement of Business Ethics.

Notice of Your Rights Concerning Employer Securities

This notice informs you of an important change in Federal law that provides specific rights concerning investments in employer securities (the Penney Common Stock Fund). Because you may now or in the future have investments in Company stock under the 401(k) Savings Plan through the Penney Common Stock Fund, you should take the time to read this notice carefully.

Your Rights

For plan years beginning after December 31, 2006, the 401(k) Savings Plan must allow you to elect to move any portion of your account that is invested in Company stock from that investment into other investment alternatives under the plan. This right extends to all of the Company stock held under the plan. The plan allows you to transfer the Company's contribution in the Penney Stock Fund on the very next day after being credited to your account. However, there are times when there are permissible restrictions on transfers for certain Associates who may be subject to the Insider Trading Policy stated on page 51 or other requirements of the Securities and Exchange Commission. You may contact PowerLine for specific information regarding this new right, including how to make this election. In deciding whether to exercise this right, you will want to give careful consideration to the information below that describes the importance of diversification. All of the investment options under the plan are available to you if you decide to diversify out of Company stock.

The Importance of Diversifying Your Retirement Savings

To help achieve long-term retirement security, you should give careful consideration to the benefits of a well-balanced and diversified investment portfolio. Spreading your assets among different types of investments can help you achieve a favorable rate of return, while minimizing your overall risk of losing money. This is because market or other economic conditions that cause one category of assets, or one particular security, to perform very well often cause another asset category, or another particular security, to perform poorly. If you invest more than 20 percent of your retirement savings in any one company or industry, your savings may not be properly diversified. Although diversification is not a guarantee against loss, it is an effective strategy to help you manage investment risk.

In deciding how to invest your retirement savings, you should take into account all of your assets, including any retirement savings outside of the plan. No single approach is right for everyone because, among other factors, individuals have different financial goals, different time horizons for meeting their goals, and different tolerances for risk. Therefore, you should carefully consider the rights described in this notice and how these rights affect the amount of money that you invest in Company stock through the plan.

It is also important to periodically review your investment portfolio, your investment objectives, and the investment options under the plan to help ensure that your retirement savings will meet your retirement goals.

For More Information

If you have any questions about your rights under this new law or the plan, contact PowerLine.

More Securities Information

This Summary Plan Description and prospectus contain information concerning the 401(k) Savings Plan and the shares of Penney Common Stock (and associated Rights) and participation interests offered hereby but does not contain all the information in the Registration Statement and the related exhibits, which the Company has filed with the Securities and Exchange Commission ("Commission"), Washington, D.C., under the Securities Act, and to which reference is hereby made.

You can get a free copy of the Company's most current annual report to its stockholders and the most current annual report on Form 11-K of the 401(k) Savings Plan filed pursuant to Section 15(d) of the Securities Exchange Act of 1934, as amended (the "Securities Act"). Just send a written request to the Company, attention of the Director of Rewards and Associate Recognition, J.C. Penney Company, Inc., 6501 Legacy Drive, Plano, TX 75024-3698 or call the Company at 972-431-1000. The Company also will provide you a free copy of any document incorporated by reference in the Registration Statement (but not the exhibits to such document unless the exhibit has been specifically incorporated by reference into the document). Just send a written request to the above address or call the Company at 972-431-1000.

The Company is subject to the informational requirements of the Securities Act. To meet those requirements, the Company files reports, proxy statements, and other information with the Commission. You can inspect and make copies of these reports, proxy statements, and other information at the public reference facilities maintained by the Commission at 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549, and at the Commission's Regional Offices in Chicago (Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, IL 60661 and New York (Woolworth Building, 233 Broadway New York, NY 10013). You also may get copies of this material from the Public Reference Section of the Commission, 450 Fifth Street, N.W., Washington, D.C. 20549 for a set fee. In addition, the Commission maintains a Web site (http://www.sec.gov) that contains reports, proxy and information statements, and other information regarding registrants that file electronically with the Commission. Reports, proxy statements, and other information concerning the Company can also be inspected at the New York Stock Exchange, Inc., 20 Broad Street, New York, NY 10005.

Additional updating information about the 401(k) Savings Plan may be provided to you in the future by means of appendices to this book and related amendments that the Company must furnish under ERISA.

Incorporation of Certain Documents by Reference

The following documents, which have been filed with the Commission, are incorporated by reference in this Summary Plan Description and prospectus:

- J.C. Penney Company, Inc.'s latest annual report filed pursuant to Section 13(a) or 15(d) of the Securities Act
- All other reports filed by J.C. Penney Company, Inc. pursuant to Section 13(a) or 15(d) of the Securities Act since the end of the fiscal year covered by the annual report referred to above, and
- The plan's latest annual report filed pursuant to Section 15(d) of the Securities Act.

J.C. Penney Company, Inc. and the 401(k) Savings Plan each hereby undertake that all documents subsequently filed pursuant to Sections 13(a), 13(c), 14, and 15(d) of the Securities Exchange Act, prior to the filing of a post-effective amendment which indicates that all participation interests and shares of Penney Common Stock (and associated Rights) offered hereby have been sold or which deregisters all such participation interests and shares of Penney Common Stock (and associated Rights) then remaining unsold, shall be deemed to be incorporated by reference herein and to be a part hereof from the respective dates of filing of such documents.

Any statement contained herein or in any document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes hereof to the extent that a statement contained herein or in any other subsequently filed document which also is incorporated or deemed to be incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of the prospectus.

Description of Penney Common Stock

The following description is included in lieu of incorporating herein by reference the description of Penney Common Stock which is contained in a Registration Statement filed under the Securities Act including any amendment or report filed for the purpose of updating such description. The Company has a authorized capital stock of 25,000,000 shares of preferred stock, without par value, and 1,250,000,000 shares of Penney Common Stock. Pursuant to the Company's Restated Certificate of Incorporation, the Board of Directors is authorized to provide by resolution for the issuance, from time to time, of shares of preferred stock in series and to determine the provisions applicable to each series, including, among other rights; redemption provisions, if any; sinking fund provisions, if any; conversion rights, if any; voting rights, if any; in addition to those provided by law; and any other relative, participation, optional, or other special rights.

The holders of Penney Common Stock are entitled to receive dividends at such times and in such amounts as may be determined by the Board of Directors and, upon any liquidation in accordance with their respective interests as determined under applicable law.

Except as provided by law or the resolution of the Board of Directors providing for the issuance of respective series of preferred stock, the holders of Penney Common Stock have the exclusive power to vote and have one vote per share on each matter submitted to a vote of stockholders. Except as otherwise provided in such resolutions, the authorized shares of any class of stock may be increased or decreased, as the case may be, by the affirmative vote of the holders of a majority of the outstanding shares of the stock entitled to vote. The J.C. Penney Company, Inc.'s Restated Certificate of Incorporation does not provide for cumulative voting nor are holders of Penney Common Stock entitled to any preemptive rights to purchase or subscribe for any of the Company's securities. All issued and outstanding shares of Penney Common Stock are, and all shares offered pursuant to this summary plan description and prospectus will, when issued, be validly issued, fully paid, and non-assessable.

The J.C. Penney Company, Inc.'s Restated Certificate of Incorporation provides for a classified Board of Directors, removal of directors only by an 80 percent stockholder vote, prohibits stockholder action by written consent, includes certain related provisions and includes "fair price provisions" relating to certain business combinations.

Purchases and Sales

The trustee will decide when and from what source it will buy shares of Penney Common Stock for the 401(k) Savings Plan. Purchases are made at the fair market value on the date of purchase.

If the 401(k) Savings Plan buys Penney Common Stock on the open market, then brokerage commissions and other fees incurred will be included as part of the cost of the transaction.

Voting Rights as a Stockholder

The shares of Penney Common Stock represented by the units of participation in your account give you voting rights. As a Company stockholder, you will receive an annual report as well as a proxy statement whenever stockholders are asked to vote. You have the right to direct the plan trustee on the voting of shares held in your account.

Confidentiality

Information regarding shares of Penney Common Stock in your account and your voting instructions are subject to confidentiality requirements imposed by the plan administrator on Company management and those who provide services to the 401(k) Savings Plan.

Administrative Information

Plan Information

Official Name	J.C. Penney Corporation, Inc. Savings, Profit-Sharing and Stock Ownership Plan
Plan I.D. Number	003
Type of Plan	Tax-qualified defined contribution 401(k) and profit-sharing plan, and with respect to benefits held in the Penney Common Stock Fund, an employee stock ownership plan
Plan Tax I.D. Number	13-5583779
Plan Year	January 1 to December 31

Because participant accounts are maintained under the 401(k) Savings Plan, the 401(k) Savings Plan is not insured by the Pension Benefit Guaranty Corporation ("PBGC").

Trustee of the 401(k) Savings Plan

State Street Bank and Trust Company
Attn: Master Trust Division-J.C. Penney
One Enterprise Drive
North Quincy, MA 02171

The Human Resources Committee appoints the trustee(s) of the 401(k) Savings Plan.

The principal duties of a trustee are to:

- Receive from the Company all contributions (and participant deposits under the 401(k) Savings Plan)
- Invest these contributions according to investment directions
- Hold these contributions and investment earnings in trust for participants
- Make payments and distributions out of those assets, and
- Vote all shares of Penney Common Stock in accordance with instructions received from participants.

Qualified Domestic Relations Orders (QDRO)

As soon as you learn of any court order that may require you to provide retirement benefits for your former spouse, you should call QDRO Consultants (the plan's domestic relations order administrator) at 1-800-527-8481 and advise that you are a JCPenney Associate. QDRO Consultants will provide you with a free copy of the policy and procedures for the submission and approval of a QDRO.

Plan Amendment

The Human Resources Committee has the right to amend the 401(k) Savings Plan for any reason except to increase, decrease, or discontinue Company contributions to the 401(k) Savings Plan. The Human Resource and Compensation Committee of the Company's Board of Directors may amend the 401(k) Savings Plan to increase, decrease, or stop Company contributions to the 401(k) Savings Plan. The Committees or the Board of Directors may amend the 401(k) Savings Plan by written resolution at any time without prior notice to, or approval by, 401(k) Savings Plan participants. Amendments may become effective on a future date or retroactively to an earlier date.

Severability of 401(k) Savings Plan Provisions

Each 401(k) Savings Plan provision is independent and does not affect the validity of any other 401(k) Savings Plan provision. If any provision is found to be invalid or unenforceable, the remaining 401(k) Savings Plan provisions remain fully effective.

Mistaken Contributions

If a contribution is made by a participating employer due to a mistake of fact, the amount of any contribution made as a result (reduced by any investment losses attributable to the contribution) will be returned by the trustee to the participating employer within one year after the mistaken contribution was made.

No Right of Employment

Nothing contained in this book, or in the provisions of the 401(k) Savings Plan, creates or should be inferred to create an employment contract.

Important Contacts

Important Contacts

Role	Contact	Responsibilities	Address
General Questions	PowerLine	• Respond to Associate inquiries	PowerLine JCPenney Benefits Resource Center 100 Half Day Road Lincolnshire, IL 60069-1458 1-888-890-8900
Plan Sponsor	J.C. Penney Corporation, Inc. Employer Identification Number (EIN): 13-5583779	• Maintain overall responsibility for the 401(k) Savings Plan	J.C. Penney Corporation, Inc. 6501 Legacy Drive Plano, TX 75024-3698 972-431-1000
Plan Administrator	Benefits Administration Committee (BAC)	• Determine eligibility to participate and for benefits • Payment of benefits • Reporting and disclosure under ERISA • Make factual determinations • Interpretation of 401(k) Savings Plan terms and provisions, and • Review of denied claims for eligibility or benefits	Attn: Secretary J.C. Penney Corporation, Inc. 6501 Legacy Drive Plano, TX 75024-3698 972-431-1000
Claims Administrator	Benefit Determination Review Team (BDRT)	• Reviewing and responding to claims for benefits and eligibility to participate	JCPenney BDRT P.O. Box 1407 Lincolnshire, IL 60069-1407 PowerLine: 1-888-890-8900 8 a.m. – 5 p.m. Monday-Friday, Central time
Agent for Service of Legal Process **Note:** Legal process may also be served on the plan administrator or Plan Trustee.	CT Corporation System	• Receiving all legal process notices	CT Corporation System 350 N. St. Paul Street, Suite 2900 Dallas, TX 75201
Investment Fiduciary	Benefit Plans Investment Committee (BPIC)	• Establishing and implementing overall investment objectives, philosophy and policy relating to investment and reinvestment of 401(k) Savings Plan assets • Appointment of investment managers, and • Selection of investment funds	Attn: Benefit Plans Investment Committee J.C. Penney Corporation, Inc. 6501 Legacy Drive Plano, TX 75024-3698 972-431-1000

Role	Contact	Responsibilities	Address
Oversight of BAC and BPIC	Human Resources Committee	• Overall administration and operation of the 401(k) Savings Plan • Overseeing the administration and operation of the 401(k) Savings Plan by the BAC • Overseeing the management of assets by the Benefit Plans Investment Committee • Appointment of trustees and auditors, and • Amendment of the 401(k) Savings Plan except with regard to Company matching contributions under the 401(k) Savings Plan	Attn: Human Resources Committee J.C. Penney Corporation, Inc. 6501 Legacy Drive Plano, TX 75024-3698 972-431-1000

Participating Employers

J.C. Penney Corporation, Inc. 6501 Legacy Drive Plano, TX 75024-3698	**JCP Media L.P.** 6501 Legacy Drive Plano, TX 75024-3698
JCP Overseas Services, Inc. 6501 Legacy Drive Plano, TX 75024-3698	**JCPenney Puerto Rico, Inc.** Plaza La Americas San Juan, PR 00918
J.C. Penney Funding Corporation 6501 Legacy Drive Plano, TX 75024-3698	**JCP Publications Corp.** 6501 Legacy Drive Plano, TX 75024-3698
JCP Procurement L.P. 6501 Legacy Drive Plano, TX 75024-3698	**JCP Logistics L.P.** 6501 Legacy Drive Plano, TX 75024-3698
J.C. Penney Private Brands, Inc. 6501 Legacy Drive Plano, TX 75024-3698	**JCP ECommerce L.P.** 6501 Legacy Drive Plano, TX 75024-3698

Your Rights Under the Law

The 401(k) Savings Plan adheres to the requirements under Section 404(c) of the Employee Retirement Income Security Act of 1974 (ERISA). This means that the 401(k) Savings Plan offers a range of investment funds and the opportunity to make your own investment decisions. You have been provided information on these investment funds (including risk/return characteristics). As a result, fiduciaries of the 401(k) Savings Plan generally are not liable for any losses resulting from your investment decisions. As a participant in the 401(k) Savings Plan you are entitled to certain rights and protections under ERISA. ERISA provides that all 401(k) Savings Plan participants shall be entitled to:

Receive Information about Your Plan and Benefits

Examine, without charge, at the plan administrator's office and other specified locations, such as worksites and union halls, all documents governing the 401(k) Savings Plan, including insurance contracts and collective bargaining agreements, and a copy of the latest annual report (Form 5500 Series) filed by the 401(k) Savings Plan with the U.S. Department of Labor and available at the Public Disclosure Room of the Employee Benefits Security Administration.

Obtain, upon written request to the plan administrator, copies of documents governing the operation of the 401(k) Savings Plan, including insurance contracts and collective bargaining agreements, and copies of the latest annual report (Form 5500 Series) and updated Summary Plan Description. The administrator may make a reasonable charge for the copies.

Receive a summary of the 401(k) Savings Plan's annual financial report. The plan administrator is required by law to furnish each participant with a copy of this summary annual report.

Prudent Actions by Plan Fiduciaries

In addition to creating rights for 401(k) Savings Plan participants ERISA imposes duties upon the people who are responsible for the operation of the employee benefit plan. The people who operate your 401(k) Savings Plan, called "fiduciaries" of the Plan, have a duty to do so prudently and in the interest of you and other 401(k) Savings Plan participants and beneficiaries. No one, including your employer, your union, or any other person, may fire you or otherwise discriminate against you in any way to prevent you from obtaining a plan benefit or exercising your rights under ERISA.

Enforce Your Rights

If your claim for a benefit is denied or ignored, in whole or in part, you have a right to know why this was done, to obtain copies of documents relating to the decision without charge, and to appeal any denial, all within certain time schedules.

Under ERISA, there are steps you can take to enforce the above rights. For instance, if you request a copy of plan documents or the latest annual report from the 401(k) Savings Plan and do not receive them within 30 days, you may file suit in a Federal court. In such a case, the court may require the plan administrator to provide materials and pay you up to $110 a day until you receive the materials, unless the materials were not sent because of reasons beyond the control of the administrator. If you have a claim for benefits which is denied or ignored, in whole or in part, you may file suit in a state or Federal court after you complete the claims and appeals process. In addition, if you disagree with the 401(k) Savings Plan's decision or lack thereof concerning the qualified status of a domestic relations order, you may file suit in Federal court. If it should happen that plan fiduciaries misuse the 401(k) Savings Plan's money, or if you are discriminated against for asserting your rights, you may seek assistance from the U.S. Department of Labor, or you may file suit in a Federal court. The court will decide who should pay court costs and legal fees. If you are successful the court may order the person you have sued to pay these costs and fees. If you lose, the court may order you to pay these costs and fees, for example, if it finds your claim is frivolous.

Assistance with Your Questions

If you have any questions about your 401(k) Savings Plan, you should contact the plan administrator. If you have any questions about this statement or about your rights under ERISA, or if you need assistance in obtaining documents from the plan administrator, you should contact the nearest office of the Employee Benefits Security Administration, U.S. Department of Labor, listed in your telephone directory or the Division of Technical Assistance and Inquiries, Employee Benefits Security Administration, U.S. Department of Labor, 200 Constitution Avenue N.W., Washington, D.C. 20210. You may also obtain certain publications about your rights and responsibilities under ERISA by calling the publications hotline of the Employee Benefits Security Administration at 1-866-444-3272.

If you have reason to believe fiduciaries are misusing funds of the 401(k) Savings Plan, or if you think you were discriminated against for asserting your rights, you have the right to file suit in a federal court or request assistance from the United States Department of Labor.

If you file suit and you are successful, the court may require the other party to pay legal costs, including attorney's fees. If you lose, the court may order you to pay all costs and fees.

If you have any questions about the 401(k) Savings Plan, your rights under ERISA, or this statement, call PowerLine at 1-888-890-8900, write to PowerLine or the Benefits Administration Committee, or contact the nearest office of the Employee Benefits Security Administration, U.S. Department of Labor (listed in your local telephone directory) or the Division of Technical Assistance and Inquiries, Employee Benefits Security Administration, U.S. Department of Labor, 200 Constitution Avenue, N.W., Washington, D.C. 20210.

Every right of action by any participant, former participant, or beneficiary against the 401(k) Savings Plan, trust, or plan fiduciary must be brought no later than three years from the date of separation from service or receipt of notice of denial of benefits, if earlier, except as otherwise required by ERISA. If ERISA's limitations on actions do not apply, the laws of the State of Texas do apply. Under Texas law, legal action must be brought no later than four years after the date the action accrues.

Where to Get More Information

Most information that you'll need is in this book. See the Table of Contents to find what you need or log on to Your Benefits Homepage or www.jcpenneypowerline.com or call PowerLine at 1-888-890-8900. PowerLine specialists are available between 8:00 a.m. and 5:00 p.m. Central time, Monday – Friday.

Accessing Account Information

You can access account information via Your Benefits Homepage or www.jcpenneypowerline.com and through an automated telephone system, 24 hours a day, seven days a week (except Sundays from 12:01 a.m. to noon Central time). Access to PowerLine and your chance to make changes cannot be assured in times of high usage, equipment failure, phone network outages, or other technical difficulties or unexpected events or circumstances. It is important that you not wait until the "last minute" to attempt time-sensitive transactions.

Access Your Benefits on the Internet

Your Benefits Homepage or www.jcpenneypowerline.com are normally available 24 hours a day, Monday – Saturday and after 12:00 p.m. Central time on Sunday. When you log on to Your Benefits Homepage Web site or www.jcpenneypowerline.com you can:

- Get information about the enrollment process
- Get a better understanding of 401(k) Savings Plan provisions
- Enroll in the 401(k) Savings Plan or make changes to your deposit or investment elections
- Get access to investment education and advice
- Complete a transfer among investment funds, or
- Request a loan, withdrawal or distribution.

Call PowerLine

If you do not have access to Your Benefits Homepage or www.jcpenneypowerline.com, call PowerLine at 1-888-890-8900 and follow the prompts. **Using a cordless telephone or cell phone can cause the system to misread the password/PIN.**

NOTE: If you are calling outside the United States, the telephone number is 1-847-883-0584. This is not a toll free number.

Remember your user ID and password and keep them in a safe place. The next time you call PowerLine you will use your new user ID and current password.

Key Terms

401(k) Savings Plan – The J.C. Penney Corporation, Inc. Savings, Profit-Sharing and Stock Ownership Plan as amended from time to time.

Appeal – A proceeding initiated by you, your representative, your beneficiary, or your estate's representative to have a denied claim for eligibility to participate or for benefits, reviewed by the Benefits Administration Committee.

Associate – A person who is employed by the Company or a participating employer and paid through the Company's or a participating employer's U.S. payroll system. The term Associate does not include a person who is classified as an independent contractor (whether or not this is consistent with IRS classification or judicial determination) by the Company or a participating employer for purposes of Federal income tax reporting and withholding. The term Associate does not include a person who performs services for the Company or a participating employer as a "leased employee" within the meaning of Code section 414(n), or who performs services through an agreement with a leasing organization.

Beneficiary – Any person, persons, or entity designated by a participant to receive any benefits payable in the event of the participant's death.

Benefits Administration Committee (BAC) – The persons named to administer and supervise the 401(k) Savings Plan.

Claim – Your requests for benefits or eligibility to participate submitted to the Benefit Determination Review Team.

Code – The Internal Revenue Code of 1986, as amended from time to time.

Company – J.C. Penney Company, Inc., a Delaware Company.

Corporation – J.C. Penney Corporation, Inc., a Delaware corporation.

Deposits – The amount of your paycheck that you elect to contribute to the 401(k) Savings Plan trust, including both before-tax and after-tax deposits.

Diversification – The practice of limiting risk by investing in a variety of assets of different types or in different industries.

Dividend – A payment made to the shareholders of a company from the company's profits.

Entry Date – For purposes of participation, your entry date is the first payroll deposit after you enroll. For purposes of the fixed Company matching contribution and retirement account contribution, your entry date is the first payroll after you complete one year of service and 1,000 hours.

Equivalent Shares – The dollar value of your investment in the Penney Common Stock Fund is expressed in "equivalent shares." This represents the number of shares of Penney Common Stock you could buy at the current market price.

ERISA – The Employee Retirement Income Security Act of 1974, as amended from time to time.

Ex-Dividend Date or Ex-Date – The day immediately following the day in each calendar quarter that a shareholder must own Penney Common Stock in order to receive the quarterly dividend.

Hour of Service – Each hour for which you are paid or entitled to be paid — including vacation time, Illness Recovery Time, overtime, holidays, and jury duty — as well as approved leaves of absence or layoff. If you are not paid on an hourly basis, you are credited with 45 hours of service per week.

Individual Retirement Arrangement (IRA) – A personal savings plan which allows you to set aside money for retirement, while offering you tax advantages.

Leave of Absence – Any approved paid or unpaid period of time during which a participant is not working for the Company or a participating employer.

Matching Contributions – To encourage your savings, the Company will contribute money to your account when you deposit money. The Company matches your deposits up to six percent of your Savings Plan compensation for the Plan Year.

Participant – Any person who is at least age 21 and employed by a participating employer is a participant in the 401(k) Savings Plan.

Participating Employer – The Company and any affiliate or subsidiary that has elected to adopt the Plan and has not discontinued or revoked its participation in the 401(k) Savings Plan.

Pay – Your regular salary or wages, including commissions, overtime, cash incentives, but not including items such as non-cash prizes, relocation payments, income from stock options and awards, etc. For purposes of figuring your deposits and Company matching contributions, deferrals to a non-qualified plan are not included as pay.

Plan Year – The 12-month period beginning on January 1 and ending on December 31.

QDRO – See Qualified Domestic Relations Order.

Qualified Domestic Relations Order (QDRO) – A final court or administrative agency order used to award qualified benefits during or after a divorce.

Representative – A person you authorize in writing to act on your behalf. The 401(k) Savings Plan recognizes a legally valid power of attorney or a court order giving a person authority to take an act on an Associate's behalf.

Return – The gain or loss on an investment usually expressed as an average compound annual percentage rate.

Risk – The chance that an investment's value and return will go up and down. Market risk is the chance that the market value of an investment could change (up or down) over any time period. Inflation risk is the chance that a fund's rate of return will not be greater than inflation.

Service or Vesting Service – Your total period of employment with the Company and its subsidiaries (and any service with an acquired Company that is permitted by the plan), including approved leaves of absence, certain service in the U.S. Armed Forces, periods when you are credited with disability service, and any period after your employment ends, so long as you are rehired within 365 days.

Spouse – The individual of the opposite gender to whom a participant or former participant is legally married within the federal law.

Time Horizon – The number of years over which you plan to invest.

JCPenney WINNING TOGETHER Principles

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

integrity .....
We act only with the highest ethical standards

performance .....
We provide coaching and feedback to perform at the highest level

recognition .....
We celebrate the achievements of others

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

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

innovation .....
We encourage creative thinking and intelligent risk taking

community .....
We care about and are involved in our communities

we do this for our .....

customers .....
We build lasting relationships by offering superior service and value

shareholders .....
We aspire to superior financial performance

JCPenney

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