POWERLINE
Your JCPenney Benefits Resource Center

JCPenney Savings Plan
Payment Rights Notice

Federal law requires that you receive information about any rights that you may have associated with a payment from the J. C. Penney Corporation, Inc. Savings, Profit-Sharing, and Stock Ownership Plan. Please review the information below regarding your rights.

You have 30 days, to the extent applicable, to consider whether to:

- Consent to this payment;
- Consent to a form of payment other than the normal form of payment; and
- Elect a direct rollover and the tax consequences of not electing one.

If you are separated from service and your vested balance at that time or any subsequent time does not exceed $5,000, you have 30 days to consider whether to elect a direct rollover and the tax consequences of not electing one. Only the Withholding Notice and the Special Tax Notice Regarding Plan Payments below may be applicable to you.

By making and/or confirming a payment request, you are waiving your right to the applicable 30-day notice periods. If you choose not to waive this right, you should not confirm your request. However, if you wish to receive a payment at any subsequent time, you will be asked again whether you wish to waive your right to the applicable 30-day notice periods. Please note that your decision to waive your right to the applicable 30-day notice period does not obligate the Plan to make the payment within 30 days.

Also, by making and/or confirming a payment, you are acknowledging that you have received, reviewed, and comprehend the information contained in the following sections of this Notice:

- Notice Regarding Commencement of Benefits;
- Withholding Notice (applies to the portion of a payment that is not eligible for rollover); and
- Special Tax Notice Regarding Plan Payments (applies to the portion of a payment that is eligible for rollover).

Notice Regarding Commencement of Benefits

You may choose to delay the commencement of your benefits until a date not later than April 1st of the calendar year following the calendar year in which you separate from service or attain age 70-1/2, whichever is later. By choosing to take a payment now, instead of deferring commencement or rolling any eligible money into another eligible retirement plan you'll be giving up your right to continue to invest and accumulate earnings on those amounts on a tax-deferred basis. The taxable amount of your payment will be taxed in the current year. If you receive the payment before you're age 59-1/2, you may also have to pay an additional 10% tax on the taxable amount. See the Special Tax Notice below for more detailed tax information on rollover-eligible payments.

Some of the available investment options in the plan may not be available with similar terms outside the plan. Fees and expenses (including administrative or investment-related fees) outside the plan also may be different from the fees and expenses that apply to your plan. If you choose to delay commencement, you may continue to invest in any of the available investment options under the plan. For more information about any fees and expenses that apply to your account and the investment options available to you under the plan, including their general availability outside the plan, you can access the PowerLine Web site or call PowerLine.

Explanation of the Optional Forms of Payment

Below are your payment options and a description of each of those options under the J. C. Penney Corporation, Inc. Savings, Profit-Sharing, and Stock Ownership Plan. Whether you are eligible for a particular payment option may depend on your employment status, your financial need, and/or your account balance.

Payment Options While Employed
While you are employed, the following payment options may be available to you:

- *Nonhardship Withdrawal*
  You may request a nonhardship withdrawal at any time, even if you do not have an immediate and heavy financial need. A nonhardship withdrawal will reduce the following accounts, in the order listed, up to the amount that is available in each account:

  — After-Tax Account;
  — Rollover Account;
  — Before-Tax Account (only if you are age 59-1/2 or older); and
  — Company Account (only if you are age 70-1/2 or older).

  You may request to have your withdrawal paid to you in shares of stock and/or cash.

  Your after-tax account balance will not include after-tax deposits that you made in the current calendar year.

- *Hardship Withdrawal*
  If you have an immediate and heavy financial need, based on plan requirements, and you have no other resources reasonably available to you to meet that need, you may request a hardship withdrawal. A hardship withdrawal will reduce the lesser of your plan to date before-tax deposits or your current market value of the before-tax account less current year deposits, which are in your Before-Tax Account. Your withdrawal amount cannot exceed the amount that is necessary to satisfy your need, plus any additional amounts necessary to pay any federal, state, and local income taxes or penalties reasonably expected to result from the withdrawal. You must provide documentation to prove your immediate and heavy financial need and the amount necessary to satisfy that need. A hardship withdrawal will be made only in cash.

Payment Options After Separation From Service

If your vested account balance is greater than $5,000 after you have separated from service, you may have one or more of the payment options described below available to you. The normal form of payment is a lump sum distribution.

- *Partial Distribution*
  You may request to have a portion (flat dollar amount or a percentage) of your vested account balance paid to you, in a single payment, at any time if you are 100 percent vested in your Company account balance. A partial distribution will reduce the following accounts, in the order listed:

  — After-Tax Account;
  — Rollover Account;
  — Before-Tax Account; and
  — Company Account.

  You may request to have your partial distribution paid to you in shares of stock and/or cash.

- *Lump-Sum Distribution*
  You may request to have your entire vested account balance paid to you in a single payment. You may request to have the portion of your lump-sum distribution paid to you in shares and/or cash.

  For example, if you had a vested account balance of $100,000, you could take the entire vested balance in a single payment.

- *Fixed Installments*
  You may request to have your vested account balance distributed to you in the form of fixed installments, which are considered nonperiodic payments, if you are 100 percent vested. With fixed installments, you elect the dollar amount of at least $100 and that amount will be paid monthly. Each installment amount is the same and you continue to receive installments until your account balance runs out. The balance remains invested in the funds you have selected, and you may continue to change your investment mix.

  For example, if you had a vested account balance of $100,000 and you elected to receive monthly installments of $500 each, you would receive $500 a month until your vested balance is depleted.

- *Required Minimum Distributions*
  If you do not elect a payment option, beginning in the year in which you reach age 70-1/2 or separate from service, whichever is later, your vested account balance will be distributed to you in the form of required minimum distributions. Even if you elect one of the payment options above, your payments made throughout the year must meet the required minimum distribution amount that will be calculated each year. If the payments made throughout the year are not sufficient to cover your required minimum distribution that is due for a year, an additional amount will be distributed.

  A required minimum distribution is an annual payment calculated based on the joint life expectancies of you and an assumed beneficiary ten years younger. The amount calculated is based on the prior year's December 31 closing balance, divided by the applicable life expectancy factor.

  For example, if you had a prior year's December 31 closing account balance of $100,000 and your whole age attained in the year in which you turn 70-1/2 is 71, your first required minimum distribution would be calculated by dividing $100,000 by the factor associated with age 71, which is 26.5. The first required minimum distribution payment would equal $3,773.58.

  If you are married, your spouse is your sole primary beneficiary for the entire calendar year, and your spouse is more than ten years younger than you, the required minimum distribution may be calculated based on the joint life expectancies of you and your spouse. Note that your benefits are governed by federal law, and federal law defines a "marriage" as the legal union between a man and a woman and defines a "spouse" as a person of the opposite sex.

  For example, if you had a prior year's December 31 closing account balance of $100,000, your whole age attained in the year in which you turn 70-1/2 is 71, and your sole primary beneficiary for the entire calendar year is your spouse, who is 60, your first required minimum distribution would be calculated by dividing $100,000 by the joint life expectancy factor associated with ages 71 and 60, which is 27.2. The first required minimum distribution payment would equal $3,676.47.

Withholding Notice (Applies to the Portion of a Payment that is not Eligible for Rollover)

The taxable portion of a payment that is not eligible for rollover is subject to federal income tax withholding unless you elect not to have withholding apply. Withholding on the taxable portion of a payment that is eligible for rollover is described in the Special Tax Notice Regarding Plan Payments section below.

You may elect not to have federal withholding apply to the taxable portion of your payment that is not eligible for rollover, or change your withholding, by accessing the PowerLine Web site or calling PowerLine. Your election will remain in effect for any subsequent payments that are part of the same payment stream until you revoke it. You may make and revoke your election not to have withholding apply as often as you wish. Any election or revocation will be effective as soon as administratively possible after your election or revocation is received.

If the payment is a periodic payment (e.g., required minimum distribution), withholding will be taken according to the wage withholding tables as if you were married, claiming three allowances. If the payment is a nonperiodic payment (hardship withdrawal, fixed installment, etc.), withholding will be taken at a flat 10% rate.

If you elect not to have withholding apply, or if you do not have enough federal income tax withheld from your payment, you may be responsible for the payment of estimated tax. You may incur penalties under the estimated tax rules if your withholding and estimated tax payments are not sufficient.

For More Information

If you need additional information, access the PowerLine Web site at **www.jcpenneypowerline.com** or call PowerLine toll-free at **1-888-890-8900**. The automated telephone system is available 24 hours a day, Monday through Saturday, and after 12 p.m. on Sunday. PowerLine specialists are available between 8 a.m. and 8 p.m. (Central time), Monday through Friday.

Special Tax Notice Regarding Plan Payments Not From a Designated Roth Account (Applies to the Portion of a Payment that is Eligible for Rollover)

Your Rollover Options

You are receiving this notice because all or a portion of a payment you are receiving from the J. C. Penney Corporation, Inc. Savings, Profit-Sharing, and Stock Ownership Plan (the "Plan") is eligible to be rolled over to an IRA or an employer plan. This notice is intended to help you decide whether to do such a rollover. This notice describes the rollover rules that apply to payments from the Plan that are not from a designated Roth account (a type of account with special tax rules in some employer plans). If you also receive a payment from a designated Roth account in the Plan, you will be provided a different notice for that payment, and the Plan administrator or the payor will tell you the amount that is being paid from each account. Rules that apply to most payments from a plan are described in the "General Information About Rollovers" section. Special rules that only apply in certain circumstances are described in the "Special Rules and Options" section.

General Information About Rollovers

How can a rollover affect my taxes?

You will be taxed on a payment from the Plan if you do not roll it over. If you are under age 59½ and do not do a rollover, you will also have to pay a 10% additional income tax on early distributions (unless an exception applies). However, if you do a rollover, you will not have to pay tax until you receive payments later and the 10% additional income tax will not apply if those payments are made after you are age 59½ (or if an exception applies).

Where may I roll over the payment?

You may roll over the payment to either an IRA (an individual retirement account or individual retirement annuity) or an employer plan (a tax-qualified plan, section 403(b) plan, or governmental section 457(b) plan) that will accept the rollover. The rules of the IRA or employer plan that holds the rollover will determine your investment options, fees, and rights to payment from the IRA or employer plan (for example, no spousal consent rules apply to IRAs and IRAs may not provide loans). Further, the amount rolled over will become subject to the tax rules that apply to the IRA or employer plan.

How do I do a rollover?

There are two ways to do a rollover. You can do either a direct rollover or a 60-day rollover.

<u>If you do a direct rollover</u>, the Plan will make the payment directly to your IRA or an employer plan. You should contact the IRA sponsor or the administrator of the employer plan for information on how to do a direct rollover.

<u>If you do not do a direct rollover</u>, you may still do a rollover by making a deposit into an IRA or eligible employer plan that will accept it. You will have 60 days after you receive the payment to make the deposit. If you do not do a direct rollover, the Plan is required to withhold 20% of the payment for federal income taxes (up to the amount of cash and property received other than

employer stock). This means that, in order to roll over the entire payment in a 60-day rollover, you must use other funds to make up for the 20% withheld. If you do not roll over the entire amount of the payment, the portion not rolled over will be taxed and will be subject to the 10% additional income tax on early distributions if you are under age 59½ (unless an exception applies).

How much may I roll over?

If you wish to do a rollover, you may roll over all or part of the amount eligible for rollover. Any payment from the Plan is eligible for rollover, except:

- Certain payments spread over a period of at least 10 years or over your life or life expectancy (or the lives or joint life expectancy of you and your beneficiary)
- Required minimum distributions after age 70½ (or after death)
- Hardship distributions
- ESOP dividends
- Corrective distributions of contributions that exceed tax law limitations
- Loans treated as deemed distributions (for example, loans in default due to missed payments before your employment ends)
- Cost of life insurance paid by the Plan
- Contributions made under special automatic enrollment rules that are withdrawn pursuant to your request within 90 days of enrollment
- Amounts treated as distributed because of a prohibited allocation of S corporation stock under an ESOP (also, there will generally be adverse tax consequences if you roll over a distribution of S corporation stock to an IRA).

The Plan administrator or the payor can tell you what portion of a payment is eligible for rollover.

If I don't do a rollover, will I have to pay the 10% additional income tax on early distributions?

If you are under age 59½, you will have to pay the 10% additional income tax on early distributions for any payment from the Plan (including amounts withheld for income tax) that you do not roll over, unless one of the exceptions listed below applies. This tax is in addition to the regular income tax on the payment not rolled over.

The 10% additional income tax does not apply to the following payments from the Plan:

- Payments made after you separate from service if you will be at least age 55 in the year of the separation
- Payments that start after you separate from service if paid at least annually in equal or close to equal amounts over your life or life expectancy (or the lives or joint life expectancy of you and your beneficiary)
- Payments made due to disability
- Payments after your death
- Payments of ESOP dividends
- Corrective distributions of contributions that exceed tax law limitations
- Cost of life insurance paid by the Plan
- Contributions made under special automatic enrollment rules that are withdrawn pursuant to your request within 90 days of enrollment
- Payments made directly to the government to satisfy a federal tax levy
- Payments made under a qualified domestic relations order (QDRO)
- Payments up to the amount of your deductible medical expenses
- Certain payments made while you are on active duty if you were a member of a reserve component called to duty after September 11, 2001 for more than 179 days
- Payments of certain automatic enrollment contributions requested to be withdrawn within 90 days of the first contribution.

If I do a rollover to an IRA, will the 10% additional income tax apply to early distributions from the IRA?

If you receive a payment from an IRA when you are under age 59½, you will have to pay the 10% additional income tax on early distributions from the IRA, unless an exception applies. In general, the exceptions to the 10% additional income tax for early distributions from an IRA are the same as the exceptions listed above for early distributions from a plan. However, there are a few differences for payments from an IRA, including:

- There is no exception for payments after separation from service that are made after age 55.
- The exception for qualified domestic relations orders (QDROs) does not apply (although a special rule applies under which, as part of a divorce or separation agreement, a tax-free transfer may be made directly to an IRA of a spouse or former spouse).
- The exception for payments made at least annually in equal or close to equal amounts over a specified period applies without regard to whether you have had a separation from service.
- There are additional exceptions for (1) payments for qualified higher education expenses, (2) payments up to $10,000 used in a qualified first-time home purchase, and (3) payments after you have received unemployment compensation for 12 consecutive weeks (or would have been eligible to receive unemployment compensation but for self-employed status).

Will I owe State income taxes?

This notice does not describe any State or local income tax rules (including withholding rules).

Special Rules And Options

If your payment includes after-tax contributions

After-tax contributions included in a payment are not taxed. If a payment is only part of your benefit, an allocable portion of your after-tax contributions is generally included in the payment. If you have pre-1987 after-tax contributions maintained in a separate account, a special rule may apply to determine whether the after-tax contributions are included in a payment. You may roll over to an IRA a payment that includes after-tax contributions through either a direct rollover or a 60-day rollover. You must keep track of the aggregate amount of the after-tax contributions in all of your IRAs (in order to determine your taxable income for later payments from the IRAs). If you do a direct rollover of only a portion of the amount paid from the Plan and a portion is paid to you, each of the payments will include an allocable portion of the after-tax contributions. If you do a 60-day rollover to an IRA of only a portion of the payment made to you, the after-tax contributions are treated as rolled over last. For example, assume you are receiving a complete distribution of your benefit which totals $12,000, of which $2,000 is after-tax contributions. In this case, if you roll over $10,000 to an IRA in a 60-day rollover, no amount is taxable because the $2,000 amount not rolled over is treated as being after-tax contributions. You may roll over to an employer plan all of a payment that includes after-tax contributions, but only through a direct rollover (and only if the receiving plan separately accounts for after-tax contributions and is not a governmental section 457(b) plan). You can do a 60-day rollover to an employer plan of part of a payment that includes after-tax contributions, but only up to the amount of the payment that would be taxable if not rolled over.

If you miss the 60-day rollover deadline

Generally, the 60-day rollover deadline cannot be extended. However, the IRS has the limited authority to waive the deadline under certain extraordinary circumstances, such as when external events prevented you from completing the rollover by the 60-day rollover deadline. To apply for a waiver, you must file a private letter ruling request with the IRS. Private letter ruling requests require the payment of a nonrefundable user fee. For more information, see IRS Publication 590, Individual Retirement Arrangements (IRAs).

If your payment includes employer stock that you do not roll over

If you do not do a rollover, you can apply a special rule to payments of employer stock (or other employer securities) that are either attributable to after-tax contributions or paid in a lump sum after separation from service (or after age 59½, disability, or the participant's death). Under the special rule, the net unrealized appreciation on the stock will not be taxed when distributed from the Plan and will be taxed at capital gain rates when you sell the stock. Net unrealized appreciation is generally the increase in the value of employer stock after it was acquired by the Plan. If you do a rollover for a payment that includes employer stock (for example, by selling the stock and rolling over the proceeds within 60 days of the payment), the special rule relating to the distributed employer stock will not apply to any subsequent payments from the IRA or employer plan. The Plan administrator can tell you the amount of any net unrealized appreciation. You may want to discuss this special rule with your personal financial or tax advisor.

If you have an outstanding loan that is being offset

If you have an outstanding loan from the Plan, your Plan benefit may be offset by the amount of the loan, typically when your employment ends. The loan offset amount is treated as a distribution to you at the time of the offset and will be taxed (including the 10% additional income tax on early distributions, unless an exception applies) unless you do a 60-day rollover in the amount of the loan offset to an IRA or employer plan.

If you were born on or before January 1, 1936

If you were born on or before January 1, 1936 and receive a lump sum distribution that you do not roll over, special rules for calculating the amount of the tax on the payment might apply to you. For more information, see IRS Publication 575, Pension and Annuity Income.

If you roll over your payment to a Roth IRA

You can roll over a payment from the Plan made before January 1, 2010 to a Roth IRA only if your modified adjusted gross income is not more than $100,000 for the year the payment is made to you and, if married, you file a joint return. These limitations do not apply to payments made to you from the Plan after 2009. If you wish to roll over the payment to a Roth IRA, but you are not eligible to do a rollover to a Roth IRA until after 2009, you can do a rollover to a traditional IRA and then, after 2009, elect to convert the traditional IRA into a Roth IRA. If you roll over the payment to a Roth IRA, a special rule applies under which the amount of the payment rolled over (reduced by any after-tax amounts) will be taxed. However, the 10% additional income tax on early distributions will not apply (unless you take the amount rolled over out of the Roth IRA within 5 years, counting from January 1 of the year of the rollover). For payments from the Plan during 2010 that are rolled over to a Roth IRA, the taxable amount can be spread over a 2-year period starting in 2011. If you roll over the payment to a Roth IRA, later payments from the Roth IRA that are qualified distributions will not be taxed (including earnings after the rollover). A qualified distribution from a Roth IRA is a payment made after you are age 59½ (or after your death or disability, or as a qualified first-time homebuyer distribution of up to $10,000) and after you have had a Roth IRA for at least 5 years. In applying this 5-year rule, you count from January 1 of the year for which your first contribution was made to a Roth IRA. Payments from the Roth IRA that are not qualified distributions will be taxed to the extent of earnings after the rollover, including the 10% additional income tax on early distributions (unless an exception applies). You do not have to take required minimum distributions from a Roth IRA during your lifetime. For more information, see IRS Publication 590, Individual Retirement Arrangements (IRAs). You cannot roll over a payment from the Plan to a designated Roth account in an employer plan.

If you are not a plan participant

Payments after death of the participant. If you receive a distribution after the participant's death that you do not roll over, the distribution will generally be taxed in the same manner described elsewhere in this notice. However, the 10% additional income tax on early distributions does not apply, and the special rule described under the section "If you were born on or before January 1, 1936" applies only if the participant was born on or before January 1, 1936.

If you are a surviving spouse.

If you receive a payment from the Plan as the surviving spouse of a deceased participant, you have the same rollover options that the participant would have had, as described elsewhere in this notice. In addition, if you choose to do a rollover to an IRA, you may treat the IRA as your own or as an inherited IRA. An IRA you treat as your own is treated like any other IRA of yours, so that payments made to you before you are age 59½ will be subject to the 10% additional income tax on early distributions (unless an exception applies) and required minimum distributions from your IRA do not have to start until after you are age 70½. If you treat the IRA as an inherited IRA, payments from the IRA will not be subject to the 10% additional income tax on early distributions. However, if the participant had started taking required minimum distributions, you will have to receive required minimum distributions from the inherited IRA. If the participant had not started taking required minimum distributions from the Plan, you will not have to start receiving required minimum distributions from the inherited IRA until the year the participant would have been age 70½.

If you are a surviving beneficiary other than a spouse.

If you receive a payment from the Plan because of the participant's death and you are a designated beneficiary other than a surviving spouse, the only rollover option you have is to do a direct rollover to an inherited IRA. Payments from the inherited IRA will not be subject to the 10% additional income tax on early distributions. You will have to receive required minimum distributions from the inherited IRA.

Payments under a qualified domestic relations order. If you are the spouse or former spouse of the participant who receives a payment from the Plan under a qualified domestic relations order (QDRO), you generally have the same options the participant would have (for example, you may roll over the payment to your own IRA or an eligible employer plan that will accept it). Payments under the QDRO will not be subject to the 10% additional income tax on early distributions.

If you are a nonresident alien

If you are a nonresident alien and you do not do a direct rollover to a U.S. IRA or U.S. employer plan, instead of withholding 20%, the Plan is generally required to withhold 30% of the payment for federal income taxes. If the amount withheld exceeds the amount of tax you owe (as may happen if you do a 60-day rollover), you may request an income tax refund by filing Form 1040NR and attaching your Form 1042-S. See Form W-8BEN for claiming that you are entitled to a reduced rate of withholding under an income tax treaty. For more information, see also IRS Publication 519, U.S. Tax Guide for Aliens, and IRS Publication 515, Withholding of Tax on Nonresident Aliens and Foreign Entities.

Other special rules

If a payment is one in a series of payments for less than 10 years, your choice whether to make a direct rollover will apply to all later payments in the series (unless you make a different choice for later payments). If your payments for the year are less than $200 (not including payments from a designated Roth account in the Plan), the Plan is not required to allow you to do a direct rollover and is not required to withhold for federal income taxes. However, you may do a 60-day rollover. Unless you elect otherwise, a mandatory cashout of more than $1,000 (not including payments from a designated Roth account in the Plan) will be directly rolled over to an IRA chosen by the Plan administrator or the payor. A mandatory cashout is a payment from a plan to a participant made before age 62 (or normal retirement age, if later) and without consent, where the participant's benefit does not exceed $5,000 (not including any amounts held under the plan as a result of a prior rollover made to the plan). You may have special rollover rights if you recently served in the U.S. Armed Forces. For more information, see IRS Publication 3, Armed Forces' Tax Guide.

For More Information

You may wish to consult with the Plan administrator or payor, or a professional tax advisor, before taking a payment from the Plan. Also, you can find more detailed information on the federal tax treatment of payments from employer plans in: IRS Publication 575, Pension and Annuity Income; IRS Publication 590, Individual Retirement Arrangements (IRAs); and IRS Publication 571, Tax-Sheltered Annuity Plans (403(b) Plans). These publications are available from a local IRS office, on the web at www.irs.gov, or by calling 1-800-TAX-FORM.