

it'sallinside:



jcp.com

# News Release

## JCPENNEY FIRST QUARTER EARNINGS PER SHARE INCREASED 45 PERCENT

**Operating Profit Increased 20 Percent to 8.7 Percent of Sales**

**Progress on Long Range Plan for Growth Continues**

### **First Quarter 2006 Highlights**

- *Continued strengthening of operating performance – EPS from continuing operations increased 45 percent*
- *Increased the quarterly dividend by 44 percent*
- *Revealed an accelerated new store growth plan beginning in 2007*
- *Announced an exciting new beauty initiative with Sephora*

**PLANO, Texas, May 11, 2006** -- J. C. Penney Company, Inc. (NYSE: JCP) first quarter 2006 earnings per share from continuing operations increased 45.2 percent to \$0.90 per share from \$0.62 per share in last year's period. Operating profit increased 19.8 percent to \$369 million from \$308 million last year. Operating profit increased 120 basis points in this year's first quarter to 8.7 percent of sales, and benefited from growth in sales, gross margin and leverage of selling, general and administrative expenses. On a per share basis, net income in the quarter, including the effects of discontinued operations, was \$0.89 per share compared to \$0.63 per share last year.

"We are pleased with the progress the Company continues to make in executing the long range plan, which is focused on building long term growth for our business. We have established strong momentum and are focused on accelerating growth and becoming a leader in the retail industry," said Myron E. (Mike) Ullman, III, chairman and chief executive officer. "In the first quarter we delivered a strong increase in earnings, achieving our twelfth consecutive quarter of comparable store sales gains and continued to improve both our gross margin and SG&A expense ratios."

Ullman added, “While economic indicators are generally positive, we know that our customers – the moderate consumer – are faced with high energy prices and increasing interest rates. This makes it even more important that we deliver the style, quality, and shopping experience they want.”

The Company believes it is well positioned to benefit from the changes occurring across the retail landscape. To capitalize on the opportunity for JCPenney in this new environment, the Company is focused on executing the long range plan to drive continued improvement in its existing business and to deliver growth.

Commenting on its growth strategies, Ullman added, “We have recently announced a number of exciting new programs to help achieve our goals, including a joint initiative with Sephora that will make beauty available to the JCPenney customer in our stores and through [jcp.com](http://jcp.com); the acceleration of new store growth that will add approximately 175 new stores over the next four years; a cycle time reduction program that will increase the speed of new product introductions; and further improvement in our multi-channel initiative with [jcp.com](http://jcp.com) access at all our stores. To demonstrate the confidence we have in our prospects, we have increased our EPS growth target to 16 percent per year over the next four years.”

## **Operating Results**

First quarter total department store sales increased 2.2 percent and comparable department store sales increased 1.3 percent, in line with the Company’s expectations. Sales were strongest in fine jewelry, family footwear, children’s, and men’s with the best regional performance in the southeastern and western regions of the country. During the quarter, Direct sales increased 3.9 percent, primarily as a result of continued strength from [jcp.com](http://jcp.com), which increased approximately 22 percent on top of a 35 percent increase last year.

Gross margin increased 80 basis points to 41.9 percent of sales and benefited from better performance from private brands as well as continued improvement in seasonal transition and merchandise flow. SG&A expenses were well managed during the quarter, and improved by 40 basis points, to 33.2 percent of sales. SG&A expenses reflect leverage of salary costs and efficiencies in the Direct business, which were partially offset by higher marketing costs, including the launch of the Company’s new branding campaign in March.

First quarter operating profit was \$369 million, a 19.8 percent increase from last year's \$308 million. As a percent of sales, operating profit increased 120 basis points to 8.7 percent of sales from 7.5 percent of sales last year.

### **Other Charges and Credits**

Net interest expense was \$34 million in the quarter and continued to benefit from rising short-term interest rates on the Company's cash investments. In addition, the Company recognized \$13 million of income from real estate and other, principally related to ongoing real estate operations and gains on the sale of properties. In last year's first quarter, real estate and other provided income of \$22 million.

Income from continuing operations increased 24.6 percent to \$213 million, and earnings per share from continuing operations increased 45.2 percent to \$0.90 per share. Net income, which includes discontinued operations, was \$210 million, or \$0.89 per share.

### **Discontinued Operations**

During the quarter a net after-tax charge of \$3 million, or about \$0.01 per share, was recorded related to ongoing adjustments to Eckerd reserves.

### **Financial Condition**

The Company's financial condition remains strong. As of April 29, 2006, the Company had cash and short-term investments of \$2.8 billion and long-term debt, including current maturities, of \$3.5 billion. Merchandise inventories were \$3.4 billion, which was in line with expectations, and reflect increases associated with new stores. Free cash flow for the quarter was negative \$269 million, which was in line with expectations.

### **Common Stock Repurchase Program and Dividends**

As previously announced, the Company's Board of Directors authorized a new \$750 million common stock repurchase program in February. Due to the planned announcements of important strategic initiatives near the end of the quarter, primarily accelerated store growth and the Sephora initiative, no stock was repurchased in the first quarter. The Company continues to expect that the current repurchase program will be completed in 2006 and that share repurchases will essentially offset the exercise of employee stock options for weighted average

share calculation purposes. In addition, as previously announced, the Board of Directors approved a plan to increase the dividend by 44 percent, to \$0.72 per share on an annualized basis.

### **Second Quarter 2006 Guidance**

The following second quarter guidance reflects the Company's current expectations:

- **Comparable store sales:** low single digit increase
- **Direct sales:** low single digit increase
- **Operating profit rate:** modest improvement year over year, primarily as a result of SG&A expense leverage
- **Interest expense:** about \$40 million
- **Income tax rate:** lower effective tax rate than first quarter, trending to approximately 37 percent for the year
- **Earnings per share:** in the area of \$0.60 per share
- **Average diluted shares:** approximately 238 million average diluted shares of common stock in the second quarter (including about 3 million common stock equivalents)

Reflecting improved performance in the first quarter, the Company now expects full year earnings from continuing operations to be in the range of \$4.24 to \$4.34 per share.

### **Conference Call/Webcast Details**

Senior management will host a live conference call and real-time webcast today, May 11, 2006, beginning at 9:30 a.m. ET. Access to the conference call is open to the press and general public in a listen only mode. To access the conference call, please dial 973-935-2035 and reference the JCPenney Quarterly Earnings Conference Call. The telephone playback will be available for two days beginning approximately two hours after the conclusion of the call by dialing 973-341-3080, pin code 6939841. The live webcast may be accessed via JCPenney's Investor Relations page at [www.jcpenny.net](http://www.jcpenny.net), or on [www.streetevents.com](http://www.streetevents.com) (for members) and [www.earnings.com](http://www.earnings.com) (for media and individual investors). Replays of the webcast will be available for up to 90 days after the event.

**For further information, contact:**

Investor Relations

Bob Johnson; (972) 431-2217; [rvjohnso@jcpenny.com](mailto:rvjohnso@jcpenny.com)  
Ed Merritt; (972) 431-8167; [emerritt@jcpenny.com](mailto:emerritt@jcpenny.com)

Media Relations

Darcie Brossart or Quinton Crenshaw; (972) 431-3400;  
[jpcorpcomm@jcpenny.com](mailto:jpcorpcomm@jcpenny.com)

**About JCPenney**

J. C. Penney Corporation, Inc., the wholly owned operating subsidiary of J. C. Penney Company, Inc., is one of America's largest department store, catalog, and e-commerce retailers, employing approximately 151,000 associates. As of April 29, 2006, J. C. Penney Corporation, Inc. operated 1,021 JCPenney department stores throughout the United States and Puerto Rico. JCPenney is the nation's largest catalog merchant of general merchandise, and jcp.com is one of the largest apparel and home furnishings sites on the Internet. JCPenney refers to the Internet/catalog business as Direct.

This release may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements, which reflect the Company's current views of future events and financial performance, involve known and unknown risks and uncertainties that may cause the Company's actual results to be materially different from planned or expected results. Those risks and uncertainties include, but are not limited to, competition, consumer demand, seasonality, economic conditions, including the price and availability of oil and natural gas, impact of changes in consumer credit payment terms, changes in management, retail industry consolidations, acts of terrorism or war, and government activity. Please refer to the Company's most recent Form 10-K and subsequent filings for a further discussion of risks and uncertainties. Investors should take such risks into account when making investment decisions. We do not undertake to update these forward-looking statements as of any future date. In addition, non-GAAP terms referenced, such as operating profit and free cash flow, are defined and presented in the Company's 2005 annual report on Form 10-K.

###

**J. C. PENNEY COMPANY, INC.**  
**SUMMARY OF OPERATING RESULTS**

(Unaudited)

(Amounts in millions except per share data)

|   | <u>13 weeks ended</u> |                  |               |
|---|-----------------------|------------------|---------------|
|   | <u>April 29,</u>      | <u>April 30,</u> | <i>Inc.</i>   |
|   | <u>2006</u>           | <u>2005</u>      | <u>(Dec.)</u> |
| <b><u>SALES INCREASES:</u></b>          |                       |                  |               |
| Comparable department stores            | 1.3%                  | 2.8%             |               |
| Direct                                  | 3.9%                  | 5.4%             |               |
| <b><u>STATEMENTS OF OPERATIONS:</u></b> |                       |                  |               |
| Total net sales                         | \$ 4,220              | \$ 4,118         | 2.5%          |
| Gross margin                            | 1,769                 | 1,694            | 4.4%          |

|   |         |         |         |
|---|---------|---------|---------|
| Selling, general and administrative (SG&A) expenses                   | 1,400   | 1,386   | 1.0%    |
| Operating profit  | 369     | 308     | 19.8%   |
| Net interest expense  | 34      | 49      | (30.6)% |
| Bond premiums and unamortized costs                                   | -       | 13      | N/A     |
| Real estate and other (income)  | (13)    | (22)    | N/A     |
| Income from continuing operations before income taxes                 | 348     | 268     | 29.9%   |
| Income tax expense  | 135     | 97      | 39.2%   |
| Income from continuing operations                                     | \$ 213  | \$ 171  | 24.6%   |
| Discontinued operations, net of income tax (benefit) of \$(2) and \$- | (3)     | 1       | N/A     |
| Net income  | \$ 210  | \$ 172  | 22.1%   |
| <br>  |         |         |         |
| Earnings per share from continuing operations - diluted               | \$ 0.90 | \$ 0.62 | 45.2%   |
| <br>  |         |         |         |
| Earnings per share - diluted  | \$ 0.89 | \$ 0.63 | 41.3%   |

#### **FINANCIAL DATA:**

Ratios as a % of sales:

|   |       |       |
|---|-------|-------|
| Gross margin  | 41.9% | 41.1% |
| SG&A expenses                                       | 33.2% | 33.6% |
| Operating profit                                    | 8.7%  | 7.5%  |
| Depreciation and amortization                       | \$ 88 | \$ 87 |
| Effective income tax rate for continuing operations | 38.8% | 36.2% |

#### **COMMON SHARES DATA:**

|   |       |        |
|---|-------|--------|
| Outstanding shares at end of period       | 234.6 | 266.6  |
| Average shares outstanding (basic shares) | 233.7 | 271.3  |
| Average shares used for diluted EPS       | 236.3 | 274.0  |
| Shares repurchased                        | -     | 7.7    |
| Total cost of shares repurchased          | \$ -  | \$ 360 |

### **SUMMARY BALANCE SHEETS AND STATEMENTS OF CASH FLOWS**

(Unaudited)  
(Amounts in millions)

| <b><u>SUMMARY BALANCE SHEETS:</u></b>               | <b>April 29,<br/>2006</b> | <b>April 30,<br/>2005</b> |
|---|---------------------------|---------------------------|
| Cash and short-term investments                     | \$ 2,791                  | \$ 4,115                  |
| Merchandise inventory (net of LIFO reserves of \$24 | 3,355                     | 3,258                     |

and \$25)

|  |                  |                  |
|--|------------------|------------------|
| Other current assets                       | 450              | 446              |
| Property and equipment, net                | 3,787            | 3,574            |
| Other assets                               | 1,995            | 2,017            |
| Assets of discontinued operations          | -                | 289              |
| Total assets                               | <u>\$ 12,378</u> | <u>\$ 13,699</u> |
| Accounts payable and accrued expenses      | \$ 2,424         | \$ 2,559         |
| Short-term debt                            | -                | 72               |
| Current maturities of long-term debt       | 345              | 264              |
| Current income taxes, payable and deferred | -                | 102              |
| Long-term debt                             | 3,116            | 3,461            |
| Long-term deferred taxes                   | 1,277            | 1,320            |
| Other liabilities                          | 967              | 1,031            |
| Liabilities of discontinued operations     | -                | 128              |
| Total liabilities                          | <u>8,129</u>     | <u>8,937</u>     |
| Stockholders' equity                       | <u>4,249</u>     | <u>4,762</u>     |
| Total liabilities and stockholders' equity | <u>\$ 12,378</u> | <u>\$ 13,699</u> |

**13 weeks ended**

**SUMMARY STATEMENTS OF CASH FLOWS:**

|  | <u>April 29,<br/>2006</u> |   | <u>April 30,<br/>2005</u> |   |
|--|---------------------------|---|---------------------------|---|
| Net cash (used in)/provided by:                        |                           |   |                           |   |
| Total operating activities                             | \$ (119)                  | * | \$ 34                     | * |
| Investing activities:                                  |                           |   |                           |   |
| Capital expenditures                                   | (126)                     | * | (97)                      | * |
| Proceeds from sale of assets                           | 5                         | * | 16                        | * |
| Total investing activities                             | <u>(121)</u>              |   | <u>(81)</u>               |   |
| Financing activities:                                  |                           |   |                           |   |
| Change in debt   | (3)                       |   | (138)                     |   |
| Stock repurchase program                               | -                         |   | (318)                     |   |
| Other changes in stock                                 | 54                        |   | 75                        |   |
| Dividends paid   | (29)                      | * | (35)                      | * |
| Total financing activities                             | <u>22</u>                 |   | <u>(416)</u>              |   |
| Cash (paid) for discontinued operations                | <u>(7)</u>                |   | <u>(71)</u>               |   |
| Net (decrease) in cash and short-term investments      | <u>(225)</u>              |   | <u>(534)</u>              |   |
| Cash and short-term investments at beginning of period | <u>3,016</u>              |   | <u>4,649</u>              |   |
| Cash and short-term investments at end of period       | <u>\$ 2,791</u>           |   | <u>\$ 4,115</u>           |   |

\* Component of free cash flow, a non-GAAP measure. Free cash flow was \$(269) million and \$(82) million for the 13 weeks ended April 29, 2006 and April 30, 2005, respectively.