PENNEY J C CO INC
Form 10-Q
September 07, 2001

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C.
20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the 13 and 26 week periods ended July 28, 2001

Commission file number 1-777

J. C. PENNEY COMPANY, INC.

(Exact name of registrant as specified in its charter)

Delaware	13-5583779
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
6501 Legacy Drive, Plano, Texas	75024 - 3698
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (972) 431-1000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X . No _____.

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

263,521,650 shares of Common Stock of 50 cents par value, as of August 31, 2001.

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PART I - FINANCIAL INFORMATION

Item 1 - Unaudited Financial Statements

Statements of Operations
(Amounts in millions, except per share data)

	13 weeks ended	
	July 28, 2001	July 29, 2000
Retail sales	$ 7,211	$ 7,207
Costs and expenses		
Cost of goods sold	5,174	5,102
Selling, general and administrative expenses	1,990	2,024
Other unallocated	11	11
Net interest expense	94	102
Acquisition amortization	21	22
Restructuring and other charges, net	7	(25)
Total costs and expenses	7,297	7,236
(Loss)from continuing operations before income taxes	(86)	(29)
Income taxes	(33)	(10)
(Loss) from continuing operations	(53)	(19)
Income from discontinued operations, net of income tax	-	42
(Loss) on sale of discontinued operations, net of income tax	(16)	-
Net (loss)/income	$ (69)	$ 23
(Loss)/earnings per common share:		
(Loss) from continuing operations	$ (53)	$ (19)
Less: preferred stock dividends, net of tax	(7)	(8)
(Loss) from continuing operations for EPS calculation	(60)	(27)
Income from discontinued operations	-	42
(Loss) on sale of discontinued operations	(16)	-
(Loss)/earnings for EPS calculation	$ (76)	$ 15
Shares		
Average shares outstanding (used for basic and diluted EPS)	263	261
(Loss) per share from continuing operations:		
Basic	$ (0.23)	$ (0.10)
Diluted	$ (0.23)	$ (0.10)
(Loss)/earnings per share:		
Basic	$ (0.29)	$ 0.06
Diluted	$ (0.29)	$ 0.06

See Notes to the Unaudited Interim Consolidated Financial Statements.

Balance Sheets
(Amounts in millions)

	July 28, 2001	July 29, 2000
ASSETS		
Current assets		
Cash (including short-term investments of $1,691, $481 and $935)	$ 1,696	$ 483
Receivables, net	737	915
Merchandise inventory	5,413	6,041
Prepaid expenses	175	165
Total current assets	8,021	7,604
Properties, net of accumulated depreciation of $3,137, $3,069 and $2,948	4,964	5,096
Goodwill and other intangible assets, net of accumulated amortization of $508, $389 and $452	2,807	2,932
Other assets	1,504	1,396
Assets of discontinued operations (including cash and short-term investments of $0, $158 and $156)	-	3,052
Total assets	$ 17,296	$ 20,080

See Notes to the Unaudited Interim Consolidated Financial Statements.

Balance Sheets
(Amounts in millions)

	July 28, 2001	July 29, 2000	Jan. 27, 2001
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued expenses	$ 3,422	$ 3,172	$ 3,877
Short-term debt	21	103	-
Current maturities of long-term debt	907	550	250
Deferred taxes	141	149	108
Total current liabilities	4,491	3,974	4,235
Long-term debt	4,545	5,411	5,448
Deferred taxes	1,127	1,115	1,136
Other liabilities	1,045	975	978
Liabilities of discontinued operations	-	1,652	1,686

Total liabilities	11,208	13,127	13,483
Stockholders' equity			
Capital stock			
Preferred stock, without par value: Authorized, 25 million shares - issued and outstanding, 0.6, 0.7 0.6 million shares of Series B ESOP convertible preferred	380	420	399
Common stock, par value $0.50: Authorized, 1,250 million shares - issued, 263, 261 and 263 million shares	3,311	3,284	3,294
Total capital stock	3,691	3,704	3,693
Reinvested earnings			
at beginning of year	2,636	3,590	3,590
Net (loss)	(28)	(95)	(705)
Common stock dividends declared	(65)	(151)	(216)
Preferred stock dividends	(15)	(16)	(33)
Reinvested earnings at end of period	2,528	3,328	2,636
Accumulated other comprehensive (loss)	(131)	(79)	(70)
Total stockholders' equity	6,088	6,953	6,259
Total liabilities and stockholders' equity	$17,296	$20,080	$19,742

See Notes to the Unaudited Interim Consolidated Financial Statements.

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Statements of Cash Flows
(Amounts in millions)

	26 weeks ended	
	July 28, 2001	July 29 2000
Cash flows from operating activities		
(Loss) from continuing operations	$ (12)	$ (175)
Restructuring and other charges, net	12	207
Depreciation and amortization, including intangible assets	362	352
Non-cash real estate gain	(26)	-
Deferred taxes	24	(75)
Change in cash from:		
Receivables	(44)	6
Sale of receivables-Eckerd	200	-
Merchandise inventory, net of trade payables	(306)	263
Current income taxes payable	102	(36)

Other assets and liabilities, net	(252)	(330)
	60	212
Cash flows from investing activities		
Capital expenditures	(313)	(276)
Proceeds from sale of discontinued operations	1,305	-
Proceeds from sale of assets	-	30
Proceeds from the sale of investment securities	-	268
	992	22
Cash flows from financing activities		
Change in short-term debt	21	(227)
Payment of long-term debt	(252)	(510)
Common stock issued, net	17	18
Preferred stock redemption	(19)	(26)
Dividends paid, preferred and common	(80)	(170)
	(313)	(915)
Cash received from discontinued operations	13	9
Net increase/(decrease) in cash and short-term investments	752	(672)
Cash and short-term investments at beginning of year	944	1,155
Cash and short-term investments at end of second quarter	$1,696	$ 483
Supplemental disclosures		
Interest paid	$ 213	$ 252
Interest received	21	30
Income taxes (received)/paid	(146)	4

See Notes to the Unaudited Interim Consolidated Financial Statements.

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Notes to the Unaudited Interim Consolidated Financial Statements

1) Summary of Significant Accounting Policies

A description of the Company's significant accounting policies is included in the Company's Annual Report on Form 10-K for the fiscal year ended January 27, 2001 (the "2000 10-K"). The accompanying unaudited interim consolidated financial statements should be read in conjunction with the Consolidated Financial Statements and notes thereto in the 2000 10-K.

The accompanying interim consolidated financial statements are unaudited but, in the opinion of management, include all adjustments, consisting only of normal recurring accruals, necessary for a fair presentation. Because of the seasonal nature of the retail business, operating results for the 13-week and 26-week periods are not necessarily indicative of the results that may be expected for the entire year.

As disclosed in the 2000 10-K, prior year amounts in the accompanying unaudited consolidated financial statements have been presented to reflect J. C. Penney Direct Marketing Services, Inc. (DMS) as a discontinued operation, the reclassification of shipping and handling fees billed to customers from selling, general and administrative (SG&A) to retail sales and related costs to cost of goods sold, and rent and occupancy costs from cost of goods sold to SG&A expenses. Certain other amounts have been reclassified to conform to the current period presentation.

In the second quarter of 2001, the Company adopted the provisions of Statement of Financial Accounting Standard (SFAS) No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities", a replacement of SFAS No. 125 with the same title. It revises the standards for securitizations and other transfers of financial assets and collateral and requires certain additional disclosures, but otherwise retains most of SFAS No. 125's provisions. SFAS No. 140 is effective for transfers occurring after March 31, 2001. The Company completed a sale of certain Eckerd drugstores' managed care receivables in May 2001, which met the criteria of SFAS No. 140 to be accounted for as a sale of receivables. See Note 10 for a discussion of the transaction.

The Company has adopted the provisions of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended by SFAS No. 138, "Accounting for Certain Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133". The Company has reviewed areas impacted by these rules, principally long-term debt, purchase commitments for goods and services and real estate leases. There is no material impact on the Company's consolidated financial position or results of operations as a result of adoption.

2) Effect of Accounting Standards Not Yet Adopted

In July 2001, the FASB issued SFAS No. 141, "Business Combinations", and SFAS No. 142, "Goodwill and Other Intangible Assets". These statements supersede Accounting Principles Board Opinion Nos. 16 and 17, respectively. SFAS No. 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method. Upon adoption of SFAS No. 142, goodwill and intangible assets with indefinite useful lives will cease to be amortized and will instead be subject to at least annual impairment

reviews using a fair-value based approach, as set forth in the new standard. The Company is currently evaluating the Statement's impairment provisions and has not yet determined what effect, if any, they might have on the consolidated financial position and results of operations of the Company.

SFAS No. 142 will also require that intangible assets with estimable useful lives be amortized over those lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of". Under SFAS No. 142, the Eckerd trade name qualifies as an intangible asset with an indefinite useful life. The Company is reviewing the estimated useful lives of its other identifiable intangible assets and has not yet determined what adjustments, if any, will be made. Identifiable tangible assets will continue to be amortized over their remaining useful lives, as determined.

The Company has approximately $2,685 million of unamortized goodwill, including the Eckerd trade name, as of July 28, 2001. Under the provisions of SFAS No. 142, goodwill and the Eckerd trade name will cease to be amortized for fiscal years beginning after December 15, 2001 (fiscal 2002 for the Company). The Company estimates that the impact on annual earnings of ceasing amortization of goodwill and the Eckerd trade name will be an increase of approximately $0.25 per share. The Company is required to adopt SFAS No. 142 as of the beginning of

its 2002 fiscal year.

3) Discontinued Operations

On June 18, 2001, the Company closed on the sale of its J.C. Penney Direct Marketing Services, Inc. (DMS) assets, including its J.C. Penney Life Insurance subsidiaries and related businesses, to Commonwealth General Corporation (Commonwealth), a U.S. subsidiary of AEGON, N. V.(AEGON). The Company received cash at closing of approximately $1.3 billion($1.1 billion after-tax).

DMS was reflected as a discontinued operation in the 2000 10-K. Results of operations for fiscal 2000 included net income of $159 million for discontinued operations and a $296 million net loss on the sale of discontinued operations. The net loss of $296 million was based on estimates as of March 2001. Upon closing of the sale, the loss was approximately $314 million, net of tax. This loss was adjusted to $312 million, net of tax, upon completion of the transaction. The additional net loss of approximately $16 million is reflected in the second quarter 2001 as a loss on the sale of discontinued operations. The transaction is subject to additional post closing adjustments, after the conclusion of a purchaser review period, as defined in the Stock Purchase Agreement.

4) Restructuring and Other Charges, Net

During the second quarter of 2001, the Company recorded a net pretax charge of $7 million related to restructuring programs and adjustments to previously established restructuring reserves. The $7 million charge was comprised of $13 million related to JCPenney unit closings (additional future lease obligations of $6 million, asset impairments of $5 million, and severance payments of $2 million), downward adjustments of Eckerd reserves of $7 million, and $1 million for severance benefits paid to certain members of senior management.

A charge of $5 million was recorded in the first quarter of 2001 related to JCPenney unit closings ($2 million), Eckerd asset impairments ($1 million), and severance benefits for certain members of senior management ($2 million).

5) Restructuring Reserves

In the past, the Company established reserves for the closing of underperforming department stores and drugstores, related exit costs and workforce adjustment programs. The majority of the remaining reserves represent the present value of future lease obligations for both department stores and drugstores that have closed or were identified for closing. The table below provides a rollforward of the reserves that were established for each of these charges and the status of the reserves at July 28, 2001. Costs are being charged against the reserves as incurred. Reserves are reviewed for adequacy on a periodic basis and are adjusted as appropriate based on those reviews. Cash payments related to these reserves are expected to be approximately $90 million in 2001 and the remaining cash payments are expected to be made by the end of 2005.

2000	2nd Qtr 2001	
Year End Reserve	2001 Charges	Cash Payments

($ in millions)

1996 and 1997 charges				
Department stores and catalog				
Future lease obligations	$ 4	$ -	$ (1)	$
Eckerd drugstores				
Future lease obligations	68	-	(3)	
Total 1996 and 1997	72	-	(4)	
2000 charges				
Department stores and catalog				
Future lease obligations	68	-	(14)	
Severance	6	-	(5)	
Contract cancellations	11	-	(2)	
Headcount reductions	9	-	(8)	
Eckerd drugstores				
Future lease obligations	63	-	(8)	
Other exit costs	2	-	(1)	
Contract cancellations	24	-	(13)	
Headcount reductions	3	-	(2)	
Total 2000	186	-	(53)	
2001 charges				
Department stores and catalog				
Future lease obligations	-	2	-	
Severance	-	2	-	
Total 2001	-	4	-	
Total	$ 258	$ 4	$ (57)	$

Department stores and catalog

Future lease obligations and severance related to store closings - During the first and fourth quarters of 2000, the Company approved plans to close a total of 92 underperforming JCPenney stores. All 45 of the stores approved in the first quarter 2000 plan had closed by April 2001. By the end of the second quarter 2001, 40 stores had closed out of the 47 stores identified for closing in fourth quarter 2000. The remaining stores are scheduled to close by the end of fiscal 2001. Approximately 5,000 store employees are expected to be impacted by the scheduled 47 store closings. The $6 million reserve for severance was established for those employees. From this reserve, termination benefits had been paid to about 1,600 employees.

In 2001, a $1 million reserve was established for the severance costs of three units targeted to close in 2001 that were identified in the 2000 restructuring plan. Also in 2001, the restructuring plan was modified to include two additional units (a catalog outlet store and a telemarketing center). For these two new units, a $3 million reserve was established ($2 million for future lease obligations and $1 million for severance).

Headcount reductions - Out of the 300 JCPenney Home Office and field positions that were planned to be eliminated, 200 associates were terminated by the end of the second quarter. The remaining positions are expected to be eliminated by the third quarter of 2001.

Eckerd drugstores

By the end of the second quarter of 2001, Eckerd had closed all 279 underperforming drugstores identified for closing in fiscal 2000.

6) (Loss)/Earnings Per Share (EPS)

Because the Company had a loss from continuing operations, no potential common shares were included in the computations of diluted EPS. The following is a description of the potential common stock that was excluded from the calculation:

- Preferred stock totaling 633 and 700 thousand shares, convertible into 12.7 million and 14.0 million common shares were issued and outstanding at July 28, 2001 and July 29, 2000, respectively.
- Stock options to purchase 18 million and 11 million shares of stock at prices ranging from $9 to $71 and $14 to $71 were outstanding at July 28, 2001 and July 29, 2000, respectively. Of these total options outstanding, certain amounts would have been excluded from the diluted EPS calculation regardless of income level because their exercise price was higher than the average stock price. The exercise price of 9 million and 11 million options, ranging from $25 and $71 and $17 to $71 were higher than the average share prices for 2001 and 2000, respectively.
- Restricted stock units convertible into 1.3 million shares of common stock were outstanding at July 28, 2001.

7) Accumulated Other Comprehensive(Loss)and Comprehensive(Loss)

Accumulated Other Comprehensive (Loss)

(Amounts in millions)	July 28, 2001	July 29, 2000	January 27, 2001
Foreign currency translation adjustments	$ (102)	$ (61)	$ (73)
Minimum SRP liability	(41)	-	-
Net unrealized changes in investment securities	12	4	3
Other comprehensive (loss) from discontinued operations	-	(22)	-
Accumulated other comprehensive (loss)	$ (131)	$ (79)	(70)

Net unrealized changes in investment securities are shown net of deferred taxes of ($7), ($2), and ($2) million as of July 28, 2001, July 29, 2000 and January 27, 2001, respectively. Minimum pension liability is shown net of deferred tax of $27 million as of July 28, 2001. A deferred tax asset has not been established for currency translation adjustments.

Total comprehensive (loss)/income was ($82) and $12 million for the 13 weeks ended July 28, 2001, and July 29, 2000, respectively. Total comprehensive (loss) was ($89) and ($100) million for the 26 weeks ended July 28, 2001, and July 29, 2000, respectively. The loss reported for the 26 weeks ended July 28, 2001, included a ($41) million adjustment to recognize additional minimum liability of the Company's non-qualified supplemental retirement plan (SRP).

8) Segment Reporting

The Company operates in two business segments: Department Stores and Catalog (including the Company's internet web site, jcpenney.com), and Eckerd Drugstores. The results of Department Stores and Catalog are combined because they generally serve the same customer and have virtually the same mix of merchandise. Other items are shown in the following table for purposes of reconciling to total Company amounts.

Segment Reporting
(Amounts in millions)

	Dept. Stores & Catalog	Eckerd Drugstores	Other Unallocate
2nd Quarter - 2001			
Retail sales, net	$ 3,855	$ 3,356	$
Segment operating profit	11	36	
Net interest expense			(9
Other unallocated			(1
Acquisition amortization			(2
Restructuring and other charges, net			(
Pretax loss from continuing operations			
Depreciation and amortization expense	95	54	2
First Half - 2001			
Retail sales, net	7,917	6,816	
Segment operating profit	144	92	
Net interest expense			(19
Other unallocated			
Acquisition amortization			(5
Restructuring and other charges, net			(1
Pretax loss from continuing operations			
Depreciation and amortization expense	196	110	5
Total assets	$ 10,434	$ 6,735	$ 12
2nd Quarter - 2000			
Retail sales, net	$ 4,073	$ 3,134	$
Segment operating profit	74	7	
Net interest expense			(10
Other unallocated			(1
Acquisition amortization			(2
Restructuring and other charges, net			2
Pretax loss from continuing operations			

Depreciation and amortization expense	95	50	2
First Half - 2000			
Retail sales, net	8,269	6,466	
Segment operating profit	241	(23)	
Net interest expense			(21
Other unallocated			(1
Acquisition amortization			(5
Restructuring and other charges, net			(20
Pretax loss from continuing operations			
Depreciation and amortization expense	190	103	5
Total assets	$ 9,932	$ 7,006	$ 3,14

9) 2001 Equity Compensation Plan

On May 18, 2001, the Company's stockholders approved a new 2001 Equity Compensation Plan (2001 Plan) which will initially reserve 16 million shares of common stock for issuance, plus shares reserved but not subject to awards under the Company's 1993, 1997 and 2000 equity plans. The 2001 Plan also authorizes the granting of performance-based cash incentive awards. Additionally, the 2001 Plan provides for grants of stock options and stock awards to members of the Board of Directors not otherwise employed by the Company. No future grants will be made under the existing 1993, 1997 and 2000 plans.

10) Sale of Certain Eckerd Managed Care Receivables

On May 11, 2001, Eckerd and its drugstore affiliates entered into a three-year revolving receivables sales facility with a third party. Eckerd formed a special purpose entity to facilitate the transaction. The Company received $200 million on May 14, 2001 from the sale of eligible managed care pharmacy receivables, as defined, under such agreement, and recorded an immaterial loss on the sale in the second quarter.

11) Benefit Plan Changes

In the second quarter of 2001, the Company approved changes to its retiree benefit plans that will reduce and cap Company contributions. In accordance with FASB Statement No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions", these changes will be accounted for as a negative plan amendment. Accordingly, the effects of reducing the benefit obligation will be amortized over the remaining years of service to eligibility of the active plan participants. While the Company expects an overall reduction in ongoing expenses, the Company is in the process of determining the final effects and will be begin recognizing the costs under the amended plans in the third quarter of 2001.

Also in the second quarter of 2001, the Company adopted an amendment to its pension plan to freeze benefits for all drugstore associates effective July 31, 2001. In its place, Eckerd will adopt a new 401(k) plan for all eligible drugstore associates effective January 1, 2002. It is currently projected that this new plan will cost the Company approximately the same as the current

retirement program. The change in the pension plan has been accounted for as a curtailment gain in accordance with SFAS No.88,"Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits". The reduction in the projected benefit obligation of approximately $11 million has been recognized in the Eckerd segment results as a reduction of SG&A expenses.

Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations

Discontinued Operations

On June 18, 2001, the Company completed the sale of its J. C. Penney Direct Marketing Services, Inc. (DMS) assets, including its insurance subsidiaries and related business, to a U.S. subsidiary of AEGON N.V. (AEGON). The Company received cash proceeds at closing of approximately $1.3 billion. DMS was reflected as a discontinued operation in the Company's 2000 10-K, and an estimated $296 million net loss on the sale of DMS assets was included in the results of operations for the year. An additional loss of $16 million has been reflected in the second quarter of 2001 as a result of the closing of the transaction. The transaction is subject to additional post-closing adjustments during a final review period, as set forth in the Stock Purchase Agreement in connection with the sale.

The Company's financial statements, footnotes and other information provided in this Form 10-Q accordingly reflect DMS as a discontinued operation for all periods presented.

Results of Operations

Consolidated operating results

	13 weeks ended		26 weeks ended	
	July 28, 2001	July 29, 2000	July 28, 2001	July 29, 2000
$ in millions				
Segment operating profit/(loss)				
Department stores and catalog	$ 11	$ 74	$ 144	$ 241
Eckerd drugstores	36	7	92	(23)
Total segments	47	81	236	218
Other unallocated	(11)	(11)	6	(18)
Net interest expense	(94)	(102)	(192)	(215)
Acquisition amortization	(21)	(22)	(56)	(58)
Restructuring and other charges, net	(7)	25	(12)	(207)
(Loss) from continuing operations before income taxes	(86)	(29)	(18)	(280)
Income taxes	(33)	(10)	(6)	(105)
(Loss) from continuing operations	$ (53)	$ (19)	$ (12)	$ (175)

For the second quarter ended July 28, 2001, the Company had a loss from continuing operations of $53 million, or $0.23 per share, as compared to a loss of $19 million, or $0.10 per share, for the comparable 2000 period. For the 26

weeks ended July 28,2001, the loss from continuing operations was $12 million, or $0.10 per share, as compared to a loss of $175 million, or $0.73 per share,for the comparable 2000 period. Results for these periods were affected by non-comparable items, including net restructuring and other charges consisting mainly of store closing activities. The effects on operations of the non-comparable items are summarized in the following table.

2001

$ in millions, except EPS	13 weeks ended July 28, 2001 Pre-tax $	13 weeks ended July 28, 2001 EPS	26 weeks ended July 28, 2001 Pre-tax $	26 weeks ended July 28, 2001 EPS
(Loss) from continuing operations before the effects of non-comparable items	$ (74)	$ (0.20)	$ (15)	$ (0.09)
Restructuring and other charges, net	(7)		(12)	
Other non-comparable items:				
Eckerd pension curtailment gain	11		11	
Information technology transition costs included in Eckerd segment results	(5)		(5)	
Centralized merchandising process costs (ACT)	(13)		(25)	
Real estate gains	2		28	
Total restructuring and other non-comparable items	(12)	(0.03)	(3)	(0.01)
(Loss) from continuing operations	$ (86)	$ (0.23)	$ (18)	$ (0.10)

2000

$ in millions, except EPS	13 weeks ended July 29, 2000 Pre-tax $	13 weeks ended July 29, 2000 EPS	26 weeks ended July 29, 2000 Pre-tax $	26 weeks ended July 29, 2000 EPS
(Loss)/income from continuing operations before the effects of non-comparable items	$ (48)	$ (0.15)	$ 25	$ (0.02)
Restructuring and other charges, net	25		(207)	
Other non-comparable items:				
Store closing activities in Eckerd segment results	5		(73)	
Centralized merchandising process costs (ACT)	(11)		(25)	
Total restructuring and other non-comparable items	19	0.05	(305)	(0.71)
(Loss) from continuing operations	$ (29)	$ (0.10)	$ (280)	$ (0.73)

The loss from continuing operations for the second quarter ending July 28, 2001 includes a net charge of $12 million, or $0.03 per share, for total restructuring and other non-comparable items versus a net credit of $19 million, or $0.05 per share, for the comparable 2000 period. Loss from continuing operations for the six months ended July 28, 2001 includes a net charge of $3 million, or $0.01 per share, of total restructuring and other non-comparable items as compared to a net charge of $305 million, or $ 0.71 per share, for the comparable 2000 period.

Non-comparable items in second quarter 2001 include $7 million of restructuring and other charges, net (see Note 4 to the Unaudited Interim Consolidated Financial Statements for additional discussion), an $11 million credit for the Eckerd pension curtailment gain (see Note 11 to the Unaudited Interim Consolidated Financial Statements for additional discussion), and $5 million of information technology transition costs, both of which are included in Eckerd operating profit as a component of SG&A, and $13 million of ACT initiative expenses and $2 million of real estate gains reported as other unallocated. Non-comparable items in second quarter 2000 include a $25 million restructuring credit from the reversal of certain prior period reserves related to drugstore closing activities, a $5 million credit included in Eckerd gross margin related to the reversal of reserves established for closed store liquidation markdowns, and $11 million of ACT initiative expenses.

The loss from continuing operations before the effects of all non-comparable items for the second quarter of 2001 was $74 million, or $0.20 per share, compared to a loss of $48 million, or $0.15 per share, for the comparable 2000 period. The loss from continuing operations before the effects of all non-comparable items for the 26 weeks ending July 28, 2001, was $15 million, or $0.09 per share, compared to income of $25 million, or $0.02 loss per share, for the comparable 2000 period. The decreases from prior year results continue to be due primarily to declines in catalog sales and lower margins in stores as a result of planned promotional marketing programs designed to increase store traffic. Declines were partially offset by improved performance at Eckerd due to sales increases and leveraging of SG&A expenses.

Segment Operating Results

Department Stores and Catalog

	13 weeks ended		26 weeks ended	
	July 28, 2001	July 29, 2000	July 28, 2001	July 29, 2000
$ in millions				
Retail sales	$ 3,855	$ 4,073	$ 7,917	$ 8,269
Cost of goods sold	(2,576)	(2,684)	(5,177)	(5,341)
SG&A expenses	(1,268)	(1,315)	(2,596)	(2,687)
Segment operating profit	$ 11	$ 74	$ 144	$ 241
Sales percent increase/ (decrease)				
Comparable stores	2.3%	-1.5%	1.7%	-2.5%
Total department stores	-0.3%	-2.2%	-0.4%	-2.6%
Catalog	-23.3%	1.8%	-17.3%	1.0%
Department stores and catalog	-5.4%	-1.3%	-4.3%	-1.8%
Ratios as a percent of sales				

Gross margin	33.2%	34.1%	34.6%	35.4%
SG&A expense	32.9%	32.3%	32.8%	32.5%
Segment operating profit	0.3%	1.8%	1.8%	2.9%
EBITDA (1)	2.7%	4.1%	4.3%	5.2%

(1) EBITDA includes LIFO segment operating profit before depreciation and amortization. EBITDA is provided as an alternative assessment of operating performance and is not intended to be a substitute for GAAP measurements. Calculations may vary for other companies.

Segment operating profit for department stores and catalog was $11 million in the second quarter compared with $74 million last year. The decrease from last year continues to be attributable to declines in catalog operations and lower margins in department stores. Sales in department stores improved by 2.3% for comparable stores, those stores open at least twelve months. For the second quarter sales were strongest in women's apparel and home furnishings. Enhanced, more aggressive marketing events in the second quarter, including new promotions, contributed to the positive sales gains. These stepped up marketing events resulted in higher promotional markdowns. Catalog sales decreased 23.3% compared to last year. Catalog sales declines were primarily the result of a planned delay in the circulation of the Fall/Winter general catalog, the continued decline in both the number of catalog customers shopping and the average order value, closing ten catalog outlet stores and eliminating unproductive sale and specialty catalogs that were active during last year's second quarter. E-commerce sales, which are included as a component of catalog sales, increased by $9 million in the second quarter 2001 or 19.1% over last year. New management is continuing an evaluation of the Company's catalog operations and developing strategies intended to improve catalog performance. Because of long lead times in the catalog business, improvements are not expected to begin until 2002. In the second quarter, two additional catalog units were approved for closing in the third quarter of 2001.

Gross margin for the segment totaled $1,279 million in the second quarter compared with $1,389 million last year. As a percentage of sales, margins declined 90 basis points and were impacted by the sales declines in catalog as well as higher promotional and clearance markdowns resulting from increased marketing events aimed at recapturing the Company's targeted customers.

Selling, general and administrative (SG&A) expenses improved $47 million, or 3.6%, over last year's second quarter. Improvements in expense levels as a result of last year's cost savings initiatives were partially offset by planned increases in advertising costs. While expense dollars were down, SG&A costs were not leveraged and increased 60 basis points as a percent of sales, principally due to the 23.3% decline in catalog sales.

Segment operating profit for the 26 weeks ended July 28, 2001 was $144 million compared to $241 million last year. Sales for comparable department stores increased by 1.7% while catalog sales declined by 17.3% compared with last year's levels. Gross margin for the 26 weeks declined 80 basis points as a percent of sales, primarily as a result of more aggressive planned promotional and clearance programs which were effective in improving comparable store sales growth. SG&A expenses decreased by 3.4% from last year but were not leveraged as a percent of sales primarily due to catalog sales declines.

Eckerd Drugstores

	13 weeks ended	26 weeks ended

$ in millions	July 28, 2001	July 29, 2000	July 28, 2001	July 29, 2000
Retail sales	$ 3,356	$ 3,134	$ 6,816	$ 6,466
Cost of goods sold	(2,598)	(2,418)	(5,285)	(5,065)
SG&A expenses	(722)	(709)	(1,439)	(1,424)
Segment operating profit/ (loss)	$ 36	$ 7	$ 92	$ (23)
Gross margin impact from non-comparable items	$ -	$ (5)	$ -	$ 61
SG&A impact from non-comparable items	(6)	-	(6)	12
Sales percent increase				
Comparable stores	8.2%	9.7%	8.7%	8.3%
Total sales	7.1%	5.3%	5.4%	7.4%
Ratios as a percent of sales				
FIFO gross margin	23.0%	23.3%	22.9%	22.1%
LIFO gross margin	22.6%	22.8%	22.5%	21.7%
SG&A expense	21.5%	22.6%	21.1%	22.0%
Segment operating profit	1.1%	0.2%	1.4%	-0.3%
EBITDA (1)	2.7%	1.8%	3.0%	1.2%
Ratios as a percent of sales before the effects of non-comparable items				
FIFO gross margin	23.0%	23.1%	22.9%	23.0%
LIFO gross margin	22.6%	22.7%	22.5%	22.6%
SG&A expense	21.7%	22.6%	21.2%	21.8%
Segment operating profit	0.9%	0.1%	1.3%	0.8%
EBITDA (1)	2.5%	1.7%	2.9%	2.4%

(1) EBITDA includes LIFO segment operating profit before depreciation and amortization. EBITDA is provided as an alternative assessment of operating performance and is not intended to be a substitute for GAAP measurements. Calculations may vary for other companies.

LIFO segment operating profit for Eckerd improved to $30 million in the second quarter compared with $2 million last year, before the effects of $6 million and $5 million non-comparable credits in the respective periods. The increase in segment operating profit in the second quarter this year was primarily related to sales increases and leveraging of SG&A expenses. Sales for the second quarter increased by 8.2% for comparable stores. The increase was comprised of improvements of 11.9% in pharmacy sales and 1.6% in front-end sales. Eckerd has implemented a more competitive pricing structure that, through the second quarter has resulted in lowering prices on about 5,000 items. The impact of these price reductions on sales was offset by increased customer transactions and higher unit volume.

Gross margin ratios before the effects of non-comparable items remain relatively flat as a percentage of sales despite the implementation of a more competitive everyday pricing strategy designed to deliver more value to the customer. The gross margin ratio was impacted by the improvement in front-end sales, more favorable vendor costs and generic dispensing rates. Additionally, through the end of the second quarter, approximately 200 newer freestanding locations have been reconfigured and these drugstores have experienced improvement in front-end sales results. Second quarter gross margin includes a LIFO charge of $14 million this year compared with $13 million last year.

SG&A expenses were well controlled, and improved by 90 basis points as a percent of sales over last year as a result leveraging sales and eliminating certain advertising programs.

Eckerd had an operating profit before the effects of non-comparable items of $86 million for the 26 weeks ended July 28, 2001 versus $50 million in last year's comparable period. Sales increased on a comparable store basis by 8.7%, led by pharmacy sales of 13.3%. The trend in gross margin continued to be basically flat, even with implementation of a more competitive pricing structure. SG&A improved by 60 basis points as a percent of sales, primarily from an emphasis on cost management and the leverage of increased sales. Eckerd recorded LIFO charges of $29 million this year compared with $25 million last year.

Other Unallocated

Other unallocated consists of real estate activities, investment transactions, and other items that are related to corporate initiatives or activities, which are not allocated to an operating segment. Second quarter 2001 results include $13 million of ACT initiative expenses, and a $6 million gain on the sale of real estate. Also included was a $3 million loss from third party fulfillment activities.

Second quarter 2000 results included $11 million of ACT initiative expenses.

Net Interest Expense

Interest charges for the second quarter and for the year have decreased 7.8% and 10.7%, respectively, as a result of improved cash balances and declines in net debt.

Restructuring and Other Charges, Net

During the second quarter of 2001, the Company recorded a pretax charge of $7 million related to restructuring charges and adjustments to previously established restructuring reserves. See additional discussion in Note 4 to the Unaudited Interim Consolidated Financial Statements.

Income Taxes

The Company's overall effective income tax rate was 38.9% for the second quarter of 2001 compared with 36.8% for the same period last year. The overall effective income tax rate for six months ended July 28, 2001 and July 29, 2000, was 34.0% and 39.2%, respectively.

Dividends

Dividends paid in the first half of 2001 were $80 million compared with $170 million for the same period last year. This reflects the reduction of quarterly dividends from $0.2875 to $0.125 in the fourth quarter of last year. The Company's Board of Directors considered the overall performance of the Company's businesses and the need to reinvest earnings in those businesses in the determination to reduce the quarterly dividend rate.

Benefit Plan Changes

In order to continue to improve the Company's competitive position, in the second quarter of 2001, the Company approved changes to its retiree medical and

dental plans that will reduce and cap Company contributions. Also in the second quarter, the Company adopted an amendment to its pension plan to freeze benefits for all drugstore associates effective July 31, 2001. The Company will be replacing the pension plan benefits with an enhanced 401(k) savings program that is more competitive in the drugstore industry and is designed to help attract and retain qualified personnel, especially pharmacists.

Effect of Accounting Standards Not Yet Adopted

The FASB issued two new statements, SFAS Nos. 141 and 142, "Business Combinations" and "Goodwill and Other Intangible Assets", respectively. SFAS No.141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method. Under SFAS No.142 goodwill and intangible assets with indefinite lives will cease being amortized, and will instead be subject to an impairment review, to be done at least annually. The Company is required to adopt these new statements at the beginning of fiscal 2002. The Company estimates that the impact of ceasing amortization of goodwill and the Eckerd trade name should have a positive impact on earnings of approximately 25 cents per share. The Company is currently evaluating the impairment test provisions under the new rules and has not determined what effect, if any, they might have on the consolidated financial position and results of operations. See Note 2 to the Unaudited Interim Consolidated Financial Statements for further discussion.

Financial Condition

Merchandise inventories on a FIFO basis totaled $5,781 million at the end of the second quarter compared with $6,336 million last year. Inventories for department stores and catalog totaled $3,430 million at July 28, 2001, as compared with $4,015 million at July 29, 2000, a decline of 14.5%. The decline was principally due to lower warehouse and catalog inventories. On a comparable store basis, inventories have declined 0.7% from last year's levels. The decline in stores and catalog inventory levels is the result of continued emphasis on reducing the number of weeks of inventory on hand and improving inventory productivity coupled with the effects of store closings. Eckerd drugstore inventories totaled $2,351 million compared with $2,321 million last year. The current cost of inventories exceeded the LIFO basis amount carried on the balance sheet by approximately $368 million at July 28, 2001, $339 million at January 27, 2001, and $295 million at July 29, 2000.

Properties, net of accumulated depreciation, totaled $4,964 million at July 28, 2001, compared with $5,096 million at July 29, 2000.

Goodwill and other intangible assets, net, totaled $2,807 million this year compared with $2,932 million at the end of 2000's second quarter.

At July 28, 2001, the consolidated balance sheet included reserves related to restructuring activities totaling $202 million. These reserves were established in connection with store closing programs and other restructuring activities recorded in the first and second quarters of 2001, first and fourth quarters of 2000, as well as in 1997 and 1996. The reserves are related primarily to future lease obligations, employee benefits, and other exit costs associated with store closings. Reserves were increased by $4 million for new charges and reduced by $60 million in the first six months of 2001 as a result of lease and other payments ($57 million) and reserve adjustments ($3 million). See additional discussion in Notes 4 and 5 to the Unaudited Interim Consolidated Financial Statements.

Liquidity and Capital Resources

The primary needs for liquidity are to acquire or construct new stores,

reconfigure and expand existing stores and provide working capital for new and existing stores. The Company anticipates that cash generated from operations in combination with the proceeds received from the sale of DMS assets will be sufficient to fund its continuing operations and growth. In addition, the Company has a committed revolving bank credit line in the amount of $1.5 billion available which expires November 21, 2002. No borrowings have been made under this facility.

Net cash provided by operating activities through the second quarter of 2001 was $60 million compared to $212 million in the comparable period of 2000. The change is due to an increase in inventory net of trade payables.

The Company had capital expenditures of $313 million through the second quarter of 2001 compared with $276 million for the comparable 2000 period. These were primarily for costs associated with reconfiguring approximately 200 Eckerd drugstores and making improvements to existing JCPenney stores. Eckerd anticipates reconfiguring approximately 460 drugstores by year-end and remodeling 160 other drugstores, which are more costly on average.

$250 million of debt matured and was paid in the first half of 2001. The Company had no commercial paper outstanding as of July 28, 2001.

Long-term debt continues to be rated Ba2 by Moody's Investors Service ("Moody's"),BBB- by Standard and Poor's Corporation ("S&P") and BB+ by Fitch Investors Services, Inc ("Fitch") as of the end of the second quarter.

A quarterly dividend of $0.125 per share on the Company's outstanding common stock was paid on August 1, 2001 to stockholders of record on July 10, 2001.

In May 2001, the Company received $200 million from the sale of certain Eckerd managed care receivables. See Note 10 to the Unaudited Interim Consolidated Financial Statements for further discussion.

As previously discussed, the Company completed the DMS sale on June 18, 2001. The majority of the $1.3 billion cash proceeds of the sale will be held in short-term investments and the majority of funds will be used to pay long-term debt as it matures.

Seasonality

The Company's business depends to a great extent on the last quarter of the year. Historically, sales for that period have averaged approximately one-third of annual sales. Accordingly, the results of operations for the 13 and 26 weeks ended July 28, 2001 are not necessarily indicative of the results for the entire year.

Item 3 - Quantitative and Qualitative Disclosure About Market Risk.

The Company believes that its exposure to market risk associated with transactions using financial derivatives and other financial instruments, such as investments and borrowings, is not material.

This report 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, and government activity. Investors should take such risks into account when making investment decisions.

PART II - OTHER INFORMATION

Item 1 - Legal Proceedings.

The Company has no material legal proceedings pending against it.

Item 4 - Submission of Matters to a Vote of Security Holders.

The Annual Meeting of Stockholders of the Company was held on May 18, 2001, at which the three matters described below were submitted to a vote of stockholders with the voting results as indicated.

(1) Election of directors for a three-year term expiring at the Year 2004 Annual Meeting of the Company's stockholders:

NOMINEE	FOR	AUTHORITY WITHHELD
M. Anthony Burns	196,238,464	39,786,478
Allen Questrom	225,020,151	11,004,791
Charles S. Sanford, Jr.	195,989,520	40,035,422

(2) The Board of Directors' proposal regarding employment of KPMG LLP as auditors for the fiscal year ending January 26, 2002:

FOR	AGAINST	ABSTAIN	NOT VOTED
229,076,354	5,898,596	1,048,992	1,000

(3) The Board of Directors' proposal regarding approval of the J.C. Penney Company, Inc. 2001 Equity Compensation Plan:

FOR	AGAINST	ABSTAIN	NOT VOTED
163,771,152	35,735,887	2,842,012	33,675.891

Item 6 - Exhibits and Reports on Form 8-K.

(a) Exhibits

The following documents are filed as exhibits to this report:

10(a) June 18, 2001 Amendment to the Supplemental Retirement Program for Management Profit-Sharing Associates of J.C. Penney Company, Inc.;

10(b) June 1, 2001 Amendments to the J.C. Penney Company, Inc. Savings, Profit-Sharing and Stock Ownership Plan;

10(c) June 1, 2001 Amendment to the J.C.Penney Company, Inc. Mirror Savings Plans I, II, and III.

(b) Reports on Form 8-K

The Company filed the following report on Form 8-K during the period covered in this report:

Current Report on Form 8-K dated June 18, 2001

(Item 2 - Acquisition or Disposition of Assets).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

J. C. PENNEY COMPANY, INC.

By /s/ W. J. Alcorn

W. J. Alcorn
Senior Vice President, Controller, and
Chief Purchasing Officer
(Principal Accounting Officer)

Date: September 7, 2001