Case Study:

Market perception and price action extremely negative. Balance sheet OK. Is there a disconnect between how a business should be run (for the long term) and "Analysts" focusing on the short term?

Perception

- Friday 8:11 AM Ron Johnson is on the mike at the J.C. Penney (JCP) earnings CC (webcast). The embattled exec starts with a quick admission of past mistakes and an unfortunate alienation of core customers before hitting his "transformational" stride. Despite the direction the RJ rhetoric goes, the company pulling away its guidance is going to be the headline that resonates. JCP -8.7%.

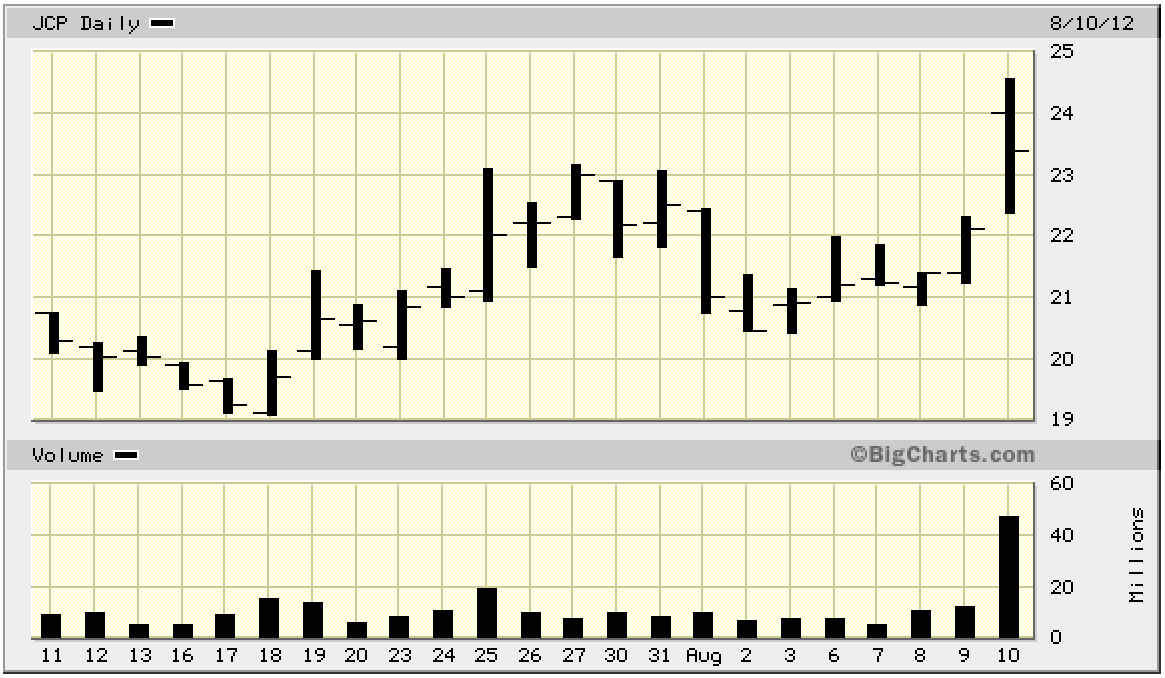
  4 Comments

  I'm not sure what type of fairy dust RJ is sprinkling during the CC to take the stock spike back up during its premarket low but JCP is clearly in some serious trouble. No guidance?? A company going through a "transformational" change with no guidance is one that seems to be changing things and hoping for the best. The direction of the business plan continues to be murky and the failings of their marketing campaign are killing what customers they have left and turning them elsewhere. Ackman's investors may be taking it on the chin with this one.

- Yeah, like they did on Borders.

  Count me as one of the core customers that Johnson has alienated. Have cancelled my credit

Can not imagine Ackman ever thought he was going to be in this for the long haul. He like many of us bought in to RJ's plan only to find out later it is flawed and will cost BILLIONS



[Consumer, On the Move

Editor of CSInvesting (www.csinvesting.wordpress.com): Readers should go to the blog and type in: ***The Sleuth Investor*** to read the book and view the video on how to do due diligence or scuttlebutt. This editor went a ***JC Penny Store*** to speak to shoppers, managers, clerks, and the Regional Manager. The several clerks I spoke to said that at first customers were confused but now they see everyday low prices and are coming back. I was very impressed with the values I saw in the stores. The sample size is too small to extrapolate, but the stores reflect what management is telling investors. Shoppers are not stupid; if they see value, then they will return to the store. Obviously, ATA MINMUM, this strategy may take 12 to 24 months to have an effect. This means that Wall Street can't conceive of that length of time when the next quarter's earnings will be announced in another 100 days.

J.C. Penney's Tortured Turnaround

By JOHANNA BENNETT | **MORE ARTICLES BY AUTHOR**

"I cannot with a straight face tell investors to buy this stock," says Brian Sozzi, chief equities analyst at NBG Productions. Indeed. Poor second-quarter results offer little hope.

Six months have passed since department store giant J.C. Penney rolled out its new pricing strategy and no one's buying it.

Shoppers prefer the coupons and promotions that have been rendered obsolete. And investors, not counting today's 2% bump to $22.52, have dumped the stock en masse.

On Friday morning, J.C. Penney (ticker: JCP) announced fiscal-second-quarter results that were ugly by virtually every measure. The company swung to a loss of $147 million, or 67 cents a share, far worse than the 25-cent loss expected. Same-store sales and total sales plunged 22% and 23%, respectively. Margins sank too.

And Penney, once again, yanked its full-year guidance.

Shares sank in premarket trading, falling as much as 12%, before Chief Executive Ron Johnson's reassuring words boosted investor sentiment. "I'm completely convinced that our transformation is on track," Johnson said. (See Stocks to Watch Today.

However, we think it's premature to conclude that turnaround efforts will succeed anytime soon. Until plunging sales and margins show some stability, it's best to leave J.C. Penney on the shelf even though the stock sports a low price-to-earnings ratio.

"I cannot with a straight face tell investors to buy this stock," says Brian Sozzi, chief equities analyst at NBG Productions. "I would rather miss out on some points on the upside and end up chasing the stock than have my head handed to me if they have a horrible holiday season, which I think is very possible."

J.C. Penney is in the middle of a transformation, altering everything from its store designs to its merchandise. But the biggest, and most controversial, move has been the elimination of discounts and promotions in favor of offering "everyday low prices" at all times.

If successful, the new strategy could redefine how department stores do business. But it has so far alienated shoppers, who have instead turned to Macy's (M) and Kohl's (KSS).

Today's result, on top of first-quarter financial losses and the decision in May to terminate J.C. Penney's quarterly-dividend payment, have fueled questions regarding Johnson's strategy.

On Friday, Johnson vowed to "stay the course**." J.C. Penney has cut costs enormously. Also, the company expects to have $1 billion in cash by the end of the year, which has helped reassure those worried about the balance sheet.**

But as Barrons.com remarked back in May, it's going to be a long and bumpy ride for J.C. Penney and without the dividend, there's no reward for being patient (see Barron's Take, "J.C. Penney Makes No Cents," May 16).

Deutsche Bank analyst Charles Grom also remains cautious with a Hold rating on the stock, which he sees hitting $18 in the next 12 months.

"He [Johnson] has tried to reassured people that while things are tough, he doesn't expect things to get worse," says Grom. "I would argue that we are entering the most promotional period of the year and some of Ron's predictions out of the gate have been incorrect. So I can't give him the benefit of the doubt on that statement."

Of course, many analysts remain bullish on J.C. Penney. And activist shareholder Bill Ackman, founder of Pershing Square Capital Management, has been a spirited defender of the company, expressing support for Johnson's strategy (see Feature, "Where Top Investors Are Putting Their Money Now," May 19).

Though patience is a virtue it can also cost you money.

--

FRIDAY, AUGUST 10, 2012

J. C. Penney Company, Inc. Reports 2012 Second Quarter Results

PLANO, Texas, Aug. 10, 2012 /PRNewswire/ -- J. C. Penney Company, Inc. (NYSE: JCP) today announced financial results for its fiscal second quarter ended July 28, 2012. For the quarter, jcpenney reported an adjusted net loss of $81 million or $0.37 per share, excluding restructuring and management transition charges, inventory transition markdowns, gain on the redemption of the Simon REIT units, net of fees and non-cash qualified pension expense. On a GAAP basis, the Company reported a net loss of $147 million or $0.67 per share. A reconciliation of GAAP to non-GAAP financial measures is included in the schedules accompanying the consolidated financial statements included with this release.

(Logo: http://photos.prnewswire.com/prnh/20110222/DA51975LOGO)

"We have now completed the first six months of our transformation and while business continues to be softer than anticipated, we are con dent the transformation of jcpenney is on track. The transition from a highly promotional business model to one based on everyday value will take time and we will stay the course," said jcpenney CEO Ron Johnson. "This month we simplified our pricing, launched the rst of our new shops, and accelerated our marketing efforts to focus on brands, products and value. Early response to these efforts has been very encouraging."

He added, "We continue to learn and adjust, and fully expect that our unique, specialty department store experience will drive jcpenney's long term success. Our rock solid balance sheet will support the execution of our transformation and position us for growth beginning in 2013."

Second Quarter Results:

Comparable store sales for the second quarter declined 21.7 percent. Total sales decreased 22.6 percent, which includes the effects of the Company's exit from its outlet business. Internet sales through jcp.com were $220 million in the second quarter, decreasing 32.6 percent from last year. Sales were adversely impacted by the Company's decision to significantly reduce its marketing activities during the latter half of the quarter, as it reconsidered its approach to pricing and marketing in time for back to school.

Gross margin was 33.2 percent of sales, compared to 38.3 percent in the same period last year. Gross margin was impacted by lower than expected sales in the quarter and approximately $102 million of markdowns taken to clear discontinued inventory in preparation for new product arriving in the fall of 2012. Excluding these transitional markdowns, which lowered gross margin by 340 basis points, adjusted gross margin was 36.6 percent of sales. A reconciliation of GAAP gross margin to non-GAAP adjusted gross margin is included in the schedules accompanying this release.

The Company's SG&A expenses decreased $193 million versus last year's second quarter. Based on the pace of its ongoing efforts to aggressively manage expenses and additional operational efficiencies that management has identified, the Company continues to expect savings to accelerate and exceed an annual run rate of approximately $900 million at the end of 2012.

For the second quarter, the Company incurred $159 million in restructuring and management transition charges. These charges comprised the following:

-- Home office and store severance expense $56 million, or $0.16 per share;

-- Store fixtures $42 million, or $0.12 per share;

-- Software and systems $36 million, or $0.10 per share;

-- Supply chain $10 million, or $0.03 per share;

-- Management transition $10 million, or $0.03 per share;

-- Other $5 million, or $0.01 per share.

The Company ended the second quarter with approximately $888 million in cash and cash equivalents on its balance sheet. Cash used in operations in the second quarter was $32 million, $545 million less than the first quarter of 2012.

2012 Outlook:

The Company no longer anticipates achieving the previously issued non-GAAP earnings guidance for fiscal 2012. Management intends to continue to provide qualitative information on business trends and capital expenditures throughout the year. Additionally, the Company expects to end the fiscal year with in excess of $1 billion of cash on the balance sheet after spending $800 million in capital expenditures to support the Company's transformation efforts and paying off $230 million of notes due in August 2012.

Earnings Event Today/Webcast Details:

Additional financial detail relating to the Company's quarterly performance is now available on its investor relations website at ir.jcpenney.com. These slides will also be presented as part of the Company's earnings event. At 8:00 a.m. ET today, the Company will host an in-person meeting with members of the financial community at SIR Stage 37 in New York City where the jcp leadership team will provide further commentary on the Company's second quarter 2012 financial results.

The presentations and question-and-answer session will be available via live streaming video and webcast on the Company's investor relations website at ir.jcpenney.com. A replay of the webcast will be available for up to 90 days after the event.

For individuals without access to the webcast, the event will also be available via live conference call in listen-only mode. To access the presentations and question-and-answer session, please dial (888) 754-4437, or (212) 231-2900 for international callers, and reference the jcp second quarter earnings event. Telephone playback will be available for seven days beginning approximately two hours after the conclusion of the meeting by dialing (800) 633-8284, reservation code 21600421 and (402) 977-9140, reservation code 21600421 for international callers.

For further information, contact:

Eric Cerny and Angelika Torres; (972)431.5500

jcpinvestorrelations@jcpenney.com

Kristin Hays and Joey Thomas; (972)431.3400

jcpcorpcomm@jcpenney.com

Corporate Website

ir.jcpenney.com

About jcpenney:

More than a century ago, James Cash Penney founded his company on the principle of the Golden Rule: treat others the way you'd like to be treated -- Fair and Square. His legacy continues to this day, as J. C. Penney Company, Inc. (NYSE: JCP) boldly transforms the retail experience across 1,100 stores and jcp.com to become America's favorite store. Focused on making the customer experience better every day, jcpenney is dreaming up new ways to make customers love shopping again. On every visit, customers will discover great prices every day in a unique Shops environment that features exceptionally curated merchandise, a dynamic presentation and unmatched customer service. For more information, visit us at jcp.com.

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, general economic conditions, including inflation, recession, unemployment levels, consumer spending patterns, credit availability and debt levels, changes in store traffic trends, the cost of goods, trade restrictions, the impact of changes designed to transform our business, changes in tariff, freight and shipping rates, changes in the cost of fuel and other energy and transportation costs, increases in wage and benefit costs, competition and retail industry consolidations, interest rate fluctuations, dollar and other currency valuations, the impact of weather conditions, risks associated with war, an act of terrorism or pandemic, a systems failure and/or security breach that results in the theft, transfer or unauthorized disclosure of customer, employee or Company information and legal and regulatory proceedings. 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.

J. C. PENNEY COMPANY, INC.

SUMMARY OF OPERATING RESULTS

(Unaudited)

(Amounts in millions except per share data)

	Three months ended			Six months ended		
	July 28,	July 30,	% Inc.	July 28,	July 30,	% Inc.
	2012	2011	(Dec.)	2012	2011	(Dec.)
STATEMENTS OF OPERATIONS:						
Total net sales	$ 3,022	$ 3,906	(22.6)%	$ 6,174	$ 7,849	(21.3)%
Costs of goods sold	2,018	2,409	(16.2)%	3,984	4,757	(16.2)%
Gross margin	1,004	1,497	(32.9)%	2,190	3,092	(29.2)%
Operating expenses/(income):						
Selling, general and administrative (SG&A)	1,050	1,243	(15.5)%	2,210	2,524	(12.4)%
Qualified pension plan	48	21	100+%	97	43	100+%
Supplemental pension plans	10	7	42.9%	19	14	35.7%
Total pension	58	28	100+%	116	57	100+%
Depreciation and amortization	128	128	0.0%	253	256	(1.2)%
Real estate and other, net	(208)	(6)	100+%	(215)	(19)	100+%
Restructuring and management						

transition	159	23	100+%	235	32	100+%
Total operating expenses	1,187	1,416	(16.2)%	2,599	2,850	(8.8)%
Operating income/(loss)	(183)	81	(100+)%	(409)	242	(100+)%
Net interest expense	58	57	1.8%	114	115	(0.9)%
Income/(loss) before income taxes	(241)	24	(100+)%	(523)	127	(100+)%
Income tax expense/(benefit)	(94)	10	(100+)%	(213)	49	(100+)%
Net income/(loss)	$ (147)	$ 14	(100+)%	$ (310)	$ 78	(100+)%
Earnings/(loss) per share - basic	$ (0.67)	$ 0.07	(100+)%	$ (1.42)	$ 0.35	(100+)%
Earnings/(loss) per share - diluted	$ (0.67)	$ 0.07	(100+)%	$ (1.42)	$ 0.35	(100+)%
FINANCIAL DATA:						
Comparable store sales increase/(decrease)	(21.7)%	1.5%		(20.3)%	2.7%	
Ratios as a percentage of sales:						
Gross margin	33.2%	38.3%		35.5%	39.4%	
SG&A expenses	34.7%	31.8%		35.8%	32.2%	
Total operating expenses	39.3%	36.2%		42.1%	36.3%	
Operating income/(loss)	(6.1)%	2.1%		(6.6)%	3.1%	
Effective income tax rate	39.0%	41.7%		40.7%	38.6%	
COMMON SHARES DATA:						
Outstanding shares at end of period	218.8	213.3		218.8	213.3	
Weighted average shares outstanding (basic shares)	219.3	213.3		218.9	221.3	
Weighted average shares used for diluted EPS	219.3	216.3		218.9	224.2	

SUMMARY BALANCE SHEETS AND STATEMENTS OF CASH FLOWS
(Unaudited)

(Amounts in millions)

	July 28, 2012	July 30, 2011
SUMMARY BALANCE SHEETS:		
Cash in banks and in transit	$ 171	$ 244
Cash short-term investments	717	1,307
Cash and cash equivalents	888	1,551
Merchandise inventory	2,993	3,572
Income tax receivable	209	138
Deferred income taxes	407	196
Prepaid expenses and other	239	194
Property and equipment, net	5,153	5,237
Prepaid pension	-	788
Other assets	923	778
Total assets	$ 10,812	$ 12,454
Merchandise accounts payable	$ 1,015	$ 1,386
Other accounts payable and accrued expenses	1,219	1,381
Current maturities of long-term debt, including capital leases	250	-
Long-term debt, including capital leases	2,901	3,099
Deferred taxes	904	1,216
Other liabilities	852	669
Total liabilities	7,141	7,751
Stockholders' equity	3,671	4,703
Total liabilities and stockholders' equity	$ 10,812	$ 12,454

	Three months ended		Six months ended	
	July 28, 2012	July 30, 2011	July 28, 2012	July 30, 2011
STATEMENTS OF CASH FLOWS:				
Cash flows from operating activities:				
Net income/(loss)	$ (147)	$ 14	$ (310)	$ 78
Adjustments to reconcile net income/(loss) to net cash				
provided by/(used in)				

operating activities:					
Restructuring and management transition		78	13	90	14
Asset impairments and other charges		3	1	4	2
(Gain) on redemption of sales		(6.1)%	2.1%	(6.6)%	3.1%
Add:	Markdowns - inventory strategy alignment	102	-	155	-
Restructuring and management transition charges		159	23	235	32
Qualified pension plan expense		48	21	97	43
Less:	Redemption of REIT units, net of fees	(200)	-	(200)	-
Adjusted operating income/(loss) (non-GAAP)		$ (74)	$ 125	$ (122)	$ 317
As a percent of sales		(2.4)%	3.2%	(2.0)%	4.0%

Reconciliation of Non-GAAP Financial Measures

(Unaudited)

(Amounts in millions, except per share data)

ADJUSTED NET INCOME/(LOSS) AND ADJUSTED EARNINGS/(LOSS) PER SHARE-DILUTED, NON-GAAP FINANCIAL MEASURES

The following table reconciles net income/(loss) and earnings/(loss) per share-diluted, the most directly comparable GAAP measures, to adjusted net income/(loss) and adjusted earnings/(loss) per share-diluted, non-GAAP financial measures:

		Three months ended		Six months ended	
		July 28,	July 30,	July 28,	July 30,
		2012	2011	2012	2011
Net income/(loss)		$ (147)	$ 14	$ (310)	$ 78
Earnings/(loss) per share - diluted		$ (0.67)	$ 0.07	$ (1.42)	$ 0.35
Add:	Markdowns - inventory strategy alignment (net of tax of $39, $-, $60, $-)	63	-	95	-

Restructuring and management transition charges (net of tax of $61, $9, $91 and $12)		98	14	144	20
	Qualified pension plan expense (net of tax				
of $19, $8, $38 and $17)		29	13	59	26
Less:	Redemption of REIT units, net of fees (net of tax of $(76), $-, $(76) and $-)	(124)	-	(124)	-
Adjusted net income/loss (non-GAAP)		$ (81)	$ 41	$ (136)	$ 124
Adjusted earnings/(loss) per share - diluted (non-GAAP)		$ (0.37)	$ 0.19	$ (0.62)	$ 0.55

FREE CASH FLOW, NON-GAAP FINANCIAL MEASURE

Free cash flow is a key financial measure of our ability to generate additional cash from operating our business and in evaluating our financial performance. We define free cash flow as cash flow from operating activities, less capital expenditures and dividends paid, plus the proceeds from the sale of operating assets. Free cash flow is a relevant indicator of our ability to repay maturing debt, revise our dividend policy or fund other uses of capital that we believe will enhance stockholder value. Free cash flow is considered a non-GAAP financial measure under the rules of the SEC. Free cash flow is limited and does not represent remaining cash flow available for discretionary expenditures due to the fact that the measure does not deduct payments required for debt maturities, pay-down of off-balance sheet pension debt, and other obligations or payments made for business acquisitions. Therefore, it is important to view free cash flow in addition to, rather than as a substitute for, our entire statement of cash flows and those measures prepared in accordance with GAAP.

The following table reconciles cash flow from operating activities, the most directly comparable GAAP measure, to free cash flow, non-GAAP financial measure:

	Three months ended		Six months ended	
	July 28,	July 30,	July 28,	July 30,
	2012	2011	2012	2011
Net cash provided by/(used in) operating activities	$ (32)	$ 120	$ (609)	$ 172
Less:				
Capital expenditures	(132)	(178)	(239)	(295)
Dividends paid	(43)	(45)	(86)	(92)
Free cash flow (non-GAAP)	$ (207)	$ (103)	$ (934)	$ (215)

SOURCE J. C. Penney Company, Inc.

/Web site: http://www.jcp.com

--

J.C. Penney Makes No Cents

By JOHANNA BENNETT | **MORE ARTICLES BY AUTHOR**

With shares plunging due to a huge quarterly loss and the suspension of the retailer's dividend, "investors want to stay away from this stock."

Earnings season among big retailers has so far been a mix of the good, bad and ugly. Department store giant J.C. Penney, however, presented investors late Tuesday the ugliest results of all.

In fact, fiscal first-quarter results were unimpressive by virtually every measure.

J.C. Penney (ticker: JCP) posted a 25-cent per share loss, against expectations for an eight-cent loss. Revenue of $3.15 billion fell 20% from a year ago and trailed the Street's expectations for $3.47 billion. Same-store sales plunged 18.9% and gross margins fell, too. (The first quarter ended April 28.)

It gets worse.

The company yanked its full-year guidance. And in the most shocking move of all, the retailer suspended its quarterly dividend.

Is it any wonder that investors raced for the exit? The stock was down 18% in Wednesday afternoon trading to $27.25. We think it could keep falling.

"I don't want any exposure to J.C. Penney in my portfolio," says Brian Sozzi, chief equities analyst with NBG Productions, who rates the stock Underperform. "Investors want to stay away from this stock."

Investors who got sold on Chief Executive Ron Johnson's ability to turn around the ailing retail giant are finding out it's going to be a long and bumpy ride. And without the dividend, there's no reward for being patient.

By ending its dividend, J.C. Penney is sending out a message that there's trouble on the horizon.

"Technically speaking, suspending a dividend is one of the worse things a company can do," says Dave Abella, a portfolio manager with Rochdale Investment Management. "It is a desperate measure. It always tanks the stock. And it's often taken as a sign that things have gotten really bad."

Johnson's hiring in June was much applauded amid buzz that the former Apple (AAPL) executive, famed for helping build the company's retail stores, would bring some Apple-style pizzazz to J.C. Penney. He vowed to flip the traditional department store strategy on its head by transforming the stores into a collection of branded shops and simplify pricing by weaning customers off discounts.

Early this year, Barron's found investor optimism to be premature (see Barron's, Feature, "Penny Wise? Not Exactly," Jan. 21). We weren't the only naysayers. In March, Standard & Poor's lowered J.C. Penney's credit rating to junk, predicting that the new pricing strategy would disrupt operations.

Indeed, that strategy took a bigger-than-expected toll on sales last quarter. And at this point, it's not clear if it will work, says Abella.

J.C. Penney sounded an optimistic note on its conference call Tuesday evening, announcing a slew of new brands that will lure shoppers. It has launched its own private label "JCP" brand of clothing. And in August, J.C. Penney will begin remodeling stores.

J.C. Penney, which has cut hundreds of jobs, looks to reduce costs by more than $900 million by the end of 2012. The company also reiterated Tuesday that it can self-fund the transformation through its retail business.

But Sozzi says cutting the dividend payment calls into question whether the company's balance sheet has the muscle to handle such an aggressive turnaround.

"There is a credibility factor now," says Sozzi. "All of that optimism and the Jamie Dimon-like premium built into the stock have been wiped out and now Johnson will have to really deliver."

Of course, many analysts remain bullish on J.C. Penney, reasoning that it is still early and that turnarounds this big never happen on a dime.

But until J.C. Penney can prove it's on the right track, investors should steer clear.

E-mail: johanna.bennett@barrons.com

--

TUESDAY, MAY 15, 2012

J. C. Penney Company, Inc. Reports 2012 First Quarter Results

Sales lower than anticipated, yet transformation ahead of schedule

Company affirms non-GAAP annual earnings guidance of $2.16 per share

PLANO, Texas, May 15, 2012 /PRNewswire/ -- J. C. Penney Company, Inc. (NYSE: JCP) today announced financial results for its fiscal quarter ended April 28, 2012. For the quarter, jcpenney reported an adjusted net loss of $55 million or $0.25 per share, excluding markdowns taken as a result of the Company's continuing efforts to reduce inventory levels to align with its new strategy, restructuring and management transition charges and non-cash qualified pension expense. On a GAAP basis, the Company reported a net loss of $163 million or $0.75 per share. A reconciliation of non-GAAP adjusted net loss to the most directly comparable GAAP financial measure is included with this release.

(Logo: http://photos.prnewswire.com/prnh/20110222/DA51975LOGO)

"Sales and profitability have been tougher than anticipated during the first 13 weeks, but the transformation is ahead of schedule. Customers love the new jcp they discover in our stores. Our shop strategy has been applauded by vendor and design partners, our merchants have stepped up to the challenge of improving our merchandise and presentation, we have dramatically simplified our business model and reorganized our teams at headquarters and in our stores. While we have work to do to educate the customer on our pricing strategy and to drive more traffic to our stores, we are confident in our vision to become America's favorite store. We fully expect that the bold and strategic changes we are making to our operations will result in improved profitability and sustainable growth over the long term," said Ron Johnson, chief executive officer of jcpenney.

First Quarter Results:

Comparable store sales for the first quarter declined 18.9 percent. Total sales decreased 20.1 percent, which includes the effects of the Company's exit from its outlet business. Internet sales through jcp.com were $271 million in the first quarter, decreasing 27.9 percent from last year.

Gross margin was 37.6 percent of sales, compared to 40.5 percent in the same period last year. Overall, compared to last year, gross margin was impacted by lower than expected sales in the quarter and the impact of taking deeper seasonal markdowns to clear inventory coming out of the fourth quarter of 2011. This also includes the impact of a $53 million markdown reserve taken as a result of the Company's continuing efforts to reduce inventory levels to align with its new strategy. This reserve had a 170 basis point impact on gross margin; excluding this reserve, gross margin was 39.3 percent of sales. A reconciliation of non-GAAP adjusted gross margin to the most directly comparable GAAP financial measure is included with this release.

The Company's SG&A expenses decreased $121 million versus last year's first quarter. Based on the pace of its ongoing efforts to aggressively manage expenses, coupled with additional operational efficiencies that management has identified, the Company now expects savings to accelerate and exceed the run rate of approximately $900 million at the end of 2012, one year earlier than it had previously announced.

For the first quarter, the Company incurred $76 million in restructuring and management transition charges. These charges comprised the following:

-- Home office and stores $45 million, or $0.13 per share;

-- Leadership transition $20 million, or $0.05 per share;

-- Supply chain $6 million, or $0.02 per share; and

-- Miscellaneous $5 million or $0.01 per share.

2012 Outlook:

The Company anticipates it will incur additional restructuring charges throughout the fiscal year as it takes aggressive action to further simplify its operations and its infrastructure. In addition, as the Company continues to transform its merchandise assortment to align with its new strategy, the Company may incur additional inventory write-downs as it exits certain lines of merchandise. As a result of these impacts, the Company no longer expects to meet its annual GAAP earnings guidance of $1.59 per share, but affirms its non-GAAP earnings guidance of $2.16 per share which excludes non-cash qualified pension expense, restructuring charges and markdown reserves as we transition our merchandise assortment.

Additionally, the Company announced today that it will discontinue the $0.20 per share quarterly dividend. On an annual basis, this will result in cash savings of approximately $175 million, which will be used to help fund the broad-based transformation plan that jcpenney announced in January.

Earnings Event Today/Webcast Details

At 5:00 p.m. ET today, the Company will host an in-person meeting with members of the financial community at SIR Stage 37 in New York City. The jcp leadership team will provide further commentary on the Company's first quarter 2012 financial results, share key learnings from the initial stages of the transformation and present an update on the Company's progress toward becoming America's favorite store.

The presentations and question-and-answer session will also be available live via streaming video and webcast on the Company's investor relations website at ir.jcpenney.com. Replays of the webcasts will be available for up to 90 days after the event.

For individuals without access to the webcast, the event will also be available via live conference call in listen-only mode. To access the presentations and question-and-answer session, please dial (800) 381-7839, or (212) 231-2900 for international callers, and reference the jcp first quarter earnings event. Telephone playback will be available for seven days beginning approximately two hours after the conclusion of the meeting by dialing (800) 633-8284, reservation code 21589157 and (402) 977-9140, reservation code 21589157 for international callers.

For further information, contact:

Kristin Hays and Angelika Torres; (972) 431-5500 jcpinvestorrelations@jcpenney.com

Daphne Avila and Joey Thomas; (972) 431-3400 jcpcorpcomm@jcpenney.com

Corporate Website ir.jcpenney.com

About jcpenney:

Over 110 years ago, James Cash Penney founded his company on the principle of treating customers the way he wanted to be treated himself: fair and square. Today, rooted in its rich heritage, J. C. Penney Company, Inc. (NYSE: JCP) is re-imagining every aspect of its business in order to reclaim its birthright and become America's favorite store. The Company is transforming the way it does business and remaking the customer experience across its 1,100 jcpenney stores and on jcp.com. At every visit, customers will discover straightforward Fair and Square Pricing, month-long promotions that are in sync with the rhythm of their lives, exceptionally curated merchandise, artful presentation, and unmatched customer service.

For more information about jcpenney, visit jcp.com.

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, general economic conditions, including inflation, recession, unemployment levels, consumer spending patterns, credit availability and debt levels, changes in store traffic trends, the cost of goods, trade restrictions, the impact of changes designed to transform our business, changes in tariff, freight and shipping rates, changes in the cost of fuel and other energy and transportation costs, increases in wage and benefit costs, competition and retail industry consolidations, interest rate fluctuations, dollar and other currency valuations, the impact of weather conditions, risks associated with war, an act of terrorism or pandemic, a systems failure and/or security breach that results in the theft, transfer or unauthorized disclosure of customer, employee or Company information and legal and regulatory proceedings. 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.

J. C. PENNEY COMPANY, INC.

SUMMARY OF OPERATING RESULTS

(Unaudited)

(Amounts in millions except per share data)

	Three months ended		
	April 28,	April 30,	% Inc.
	2012	2011	(Dec.)
STATEMENTS OF OPERATIONS:			
Total net sales	$ 3,152	$ 3,943	(20.1)%
Costs of goods sold	1,966	2,348	(16.3)%
Gross margin	1,186	1,595	(25.6)%
Operating expenses/(income):			
Selling, general and administrative (SG&A)	1,160	1,281	(9.4)%

Qualified pension plan	49	22	100+%
Supplemental pension plans	9	7	28.6%
Total pension	58	29	100.0%
Depreciation and amortization	125	128	(2.3)%
Real estate and other, net	(7)	(13)	(46.2)%
Restructuring and management transition	76	9	100+%
Total operating expenses	1,412	1,434	(1.5)%
Operating income/(loss)	(226)	161	(100+)%
Net interest expense	56	58	(3.4)%
Income/(loss) before income taxes	(282)	103	(100+)%
Income tax expense/(benefit)	(119)	39	(100+)%
Net income/(loss)	$ (163)	$ 64	(100+)%
Earnings/(loss) per share - basic	$ (0.75)	$ 0.28	(100+)%
Earnings/(loss) per share - diluted	$ (0.75)	$ 0.28	(100+)%
FINANCIAL DATA:			
Comparable store sales increase/(decrease)	(18.9)%	3.8%	
Ratios as a percentage of sales:			
Gross margin	37.6%	40.5%	
SG&A expenses	36.8%	32.5%	
Total operating expenses	44.8%	36.4%	
Operating income/(loss)	(7.2)%	4.1%	
Effective income tax rate	42.2%	37.9%	
COMMON SHARES DATA:			
Outstanding shares at end of period	218.4	216.1	
Weighted average shares outstanding (basic shares)	218.3	229.2	
Weighted average shares used for diluted EPS	218.3	231.7	

SUMMARY BALANCE SHEETS AND STATEMENTS OF CASH FLOWS

(Unaudited)

(Amounts in millions)

	April 28, 2012	April 30, 2011
SUMMARY BALANCE SHEETS:		
Cash and cash equivalents	$ 839	$ 1,767
Merchandise inventory	3,084	3,408
Income taxes	542	269
Prepaid expenses and other	217	189
Property and equipment, net	5,126	5,226
Prepaid pension	-	776
Other assets	1,231	764
Total assets	$ 11,039	$ 12,399
Merchandise accounts payable	$ 984	$ 1,274
Other accounts payable and accrued expenses	1,222	1,396
Current maturities of long-term debt	231	-
Long-term debt	2,871	3,099
Long-term deferred taxes	924	1,208
Other liabilities	871	671
Total liabilities	7,103	7,648
Stockholders' equity	3,936	4,751
Total liabilities and stockholders' equity	$ 11,039	$ 12,399

	Three months ended	
	April 28, 2012	April 30, 2011
SUMMARY STATEMENTS OF CASH FLOWS:		
Net cash provided by/(used in):		
Total operating activities	$ (577)	$ 52
Investing activities:		
Capital expenditures	(107)	(117)
Acquisition	(9)	-
Total investing activities	(116)	(117)
Financing activities:		
Financing costs	(2)	(15)
Stock repurchase program	-	(733)

Proceeds from stock options exercised	68	8
Other changes in stock	2	(3)
Dividends paid	(43)	(47)
Total financing activities	25	(790)
Net increase/(decrease) in cash and cash equivalents	(668)	(855)
Cash and cash equivalents at beginning of period	1,507	2,622
Cash and cash equivalents at end of period	$ 839	$ 1,767

Reconciliation of Non-GAAP Financial Measures

(Unaudited)

(Amounts in millions except per share data)

We define (i) adjusted gross margin as gross margin excluding the impact of markdowns related to the alignment of inventory with the Company's new strategy, (ii) adjusted operating income/(loss) as operating income/(loss) excluding the impact of markdowns related to the alignment of inventory with the Company's new strategy, restructuring and management transition charges and the non-cash impact of the qualified pension plan, and (iii) adjusted net income/(loss) and adjusted earnings/(loss) per share - diluted as net income/(loss) and earnings/(loss) per share - diluted, respectively, excluding the impact of the after-tax markdowns related to the alignment of inventory with the Company's new strategy, the after-tax restructuring and management transition charges and the after-tax non-cash impact of the qualified pension plan expense. We believe that the presentation of these non-GAAP financial measures, which our management relies on to assess our operating results, is useful in order to better understand the operating performance of our core business, provide enhanced visibility into our selling, general and administrative expense structure and to facilitate the comparison of our results to the results of our peer companies.

ADJUSTED GROSS MARGIN, NON-GAAP FINANCIAL MEASURE

The following table reconciles gross margin, the most directly comparable GAAP measure, to adjusted gross margin, non-GAAP financial measure:

		Three months ended	
		April 28,	April 30,
		2012	2011
Gross margin		$ 1,186	$ 1,595
As a percent of sales		37.6%	40.5%
Add:	Markdowns - inventory strategy alignment	53	-
As a percent of			

sales	1.7%	0.0%
Adjusted gross margin (non-GAAP)	$ 1,239	$ 1,595
As a percent of sales	39.3%	40.5%

ADJUSTED OPERATING INCOME/(LOSS), NON-GAAP FINANCIAL MEASURE

The following table reconciles operating income/(loss), the most directly comparable GAAP measure, to adjusted operating income/(loss), non-GAAP financial measure:

		Three months ended	
		April 28,	April 30,
		2012	2011
Operating income/(loss)		$ (226)	$ 161
As a percent of sales		(7.2)%	4.1%
Add:	Markdowns - inventory strategy alignment	53	-
	Restructuring and management transition		
charges		76	9
Qualified pension plan expense		49	22
Adjusted operating income/(loss) (non-GAAP)		$ (48)	$ 192
As a percent of sales		(1.5)%	4.9%

ADJUSTED NET INCOME/(LOSS) AND ADJUSTED EARNINGS/(LOSS) PER SHARE - DILUTED, NON-GAAP FINANCIAL MEASURES

The following table reconciles net income/(loss) and earnings/(loss) per share-diluted, the most directly comparable GAAP measures, to adjusted net income/(loss) and adjusted earnings/(loss) per share-diluted, non-GAAP financial measures:

		Three months ended	
		April 28,	April 30,
		2012	2011
Net income/(loss)		$ (163)	$ 64
Earnings/(loss) per share - diluted		$ (0.75)	$ 0.28
Add:	Markdowns - inventory strategy alignment, net of		
	tax of $21 and $-	32	-

	Restructuring and management transition		
charges, net of tax of $30 and $3		46	6
	Qualified pension plan expense, net of tax		
of $19 and $9		30	13
Adjusted net income/(loss) (non-GAAP)		$ (55)	$ 83
Adjusted earnings/(loss) per share - diluted (non-GAAP)		$ (0.25)	$ 0.36

Reconciliation of Non-GAAP Financial Measures

(Unaudited)

(Amounts in millions)

FREE CASH FLOW

Free cash flow is a key financial measure of our ability to generate additional cash from operating our business and in evaluating our financial performance. We define free cash flow as cash flow from operating activities excluding discretionary cash contributions to our primary pension plan, less capital expenditures and dividends paid, plus the proceeds from the sale of assets.Adjustments to exclude discretionary pension plan contributions are more indicative of our ability to generate cash flows from operating activities. We believe discretionary contributions to our pension plan are more reflective of financing transactions to pay down off-balance sheet debt relating to the pension liability. Free cash flow is a relevant indicator of our ability to repay
--

Where Top Investors Are Putting Their Money Now

By ANDREW BARY | **MORE ARTICLES BY AUTHOR**

Top hedge-fund managers brought their best ideas to last week's Ira Sohn Investment Conference. Why they like J.C. Penney and Kohl's. Mixed tastes on Apple.

The Einhorn effect was on full display at the annual Sohn Investment Conference last Wednesday in New York when David Einhorn, the head of Greenlight Capital, made a bearish mention of Martin Marietta Materials (ticker: MLM) and shares of the construction-aggregates maker dropped more than 10% in minutes.

Such is the power Einhorn wields after presciently bearish calls on such companies as Lehman Brothers, St. Joe (JOE) and Green Mountain Coffee Roasters (GMCR). And Herbalife (HLF) rallied 10% (see "Where Beauty Is Skin

Deep," May 14) amid investor relief that Einhorn didn't attack the company after asking pointed questions on its conference call on May 1.

Einhorn was one of more than a dozen investors—including notables Bill Ackman, John Paulson, and Steve Mandel—who made presentations, but he had the most impact. In a wide-ranging talk, Einhorn noted that Martin Marietta, then $75, was trading for a steep 35 times earnings, way above the valuation of other companies that rely on government contracts.

Einhorn favors Apple (AAPL), saying the stock, around $550, looks attractive trading for below a market price/earnings ratio. He said that Apple's ecosystem creates "high switching costs" and a sticky customer base. But the Greenlight manager argued that real-estate investment trusts could be vulnerable because about 9% of the market is held by hot-money Japanese funds. He said REITs aren't cheap trading at 24 times adjusted funds from operations, a 90% premium to the Standard & Poor's 500. (For more on REITs, see "Changing Their Stripes.")

Ackman, the CEO of Pershing Square, made a pitch for J.C. Penney (JCP), whose shares had fallen 20%, to $26, that day on a wider-than-expected quarterly loss. Ackman said the shares are supported by Penney's valuable real-estate portfolio and $3 billion of inventory. He called CEO Ron Johnson and other brass " a dream team of retail" and expressed confidence in a new strategy, involving everyday pricing, fewer markdowns, more upscale offerings and "stores within a store" from the likes of Nike, Tourneau, and Michael Graves Design (see Follow-Up.)

Lone Pine chief Mandel likes Kohl's (KSS), putting the retailer in a basket of companies that he calls "share-count shrinkers." Kohl's bought back 15% of its stock in 2011 and may repurchase another 8% to 10% this year, he said. The shares, at $47, have been weak amid disappointing sales. He sees improvement in the second half and a potential $5.50 a share in profit in 2013. "You don't need much of a multiple [on those earnings] to get a nice return from here," he said.

Barron's Roundtable member Meryl Witmer of Eagle Capital favors Gildan Activewear (GIL), the dominant, low-cost maker of plain T-shirts. Thanks in part to falling cotton prices, Gildan's profits could hit $3.50 a share in 2014 or 2015, up from an estimated $1.30 this year. The stock could double from the recent $25, she added. Witmer also is a fan of Viacom (VIAB), another aggressive buyer of its own stock. She argues it could top $80 in a few years from the recent $47, as earnings rise to about $6.70 a share in 2015 from a projected $4.54 this year.

John Paulson likes AngloGold Ashanti (AU), the African miner. Gold stocks, he notes, have badly trailed metal prices, and AngloGold Ashanti is at its "lowest valuation in 10 years," trading at $34, or eight times projected earnings. (For more on gold producers, see "Mining the Gold Miners.")

He also likes Caesars Entertainment (CZR), whose thinly traded shares, at $14, are supported by cash and a social-gaming business separate from its debt-laden hotels and casinos. Paulson estimates those assets are worth $6 to $9 a share. Caesars, he added, offers a cheap play on the legalization of online gambling.

Among other investors, John Lykouretzos of Hoplite Capital, recommended Starbucks (SBUX), saying its "story is far from over." Dwight Anderson of Ospraie Capital, pitched Westlake Chemical (WLK), arguing the petrochemical maker is a big winner from low prices for domestic natural gas and gas liquids, a critical input. Westlake, now at $52, or 11 times earnings, could hit $95.

Jonathan Kolatch of Redwood Capital likes Argentina's euro-denominated long-term debt, now yielding about 15%. While investors are right to be worried about Argentina's nationalization of YPF, its major oil company, he doubts the country will default or seek to restructure its debt. Jeffrey Gundlach, CEO of bond manager DoubleLine Capital, worries about the impact of excessive debt and austerity worldwide. He's bearish on Nordstrom (JWN) and Apple, and bullish on battered natural-gas and Spanish stocks.

Heeding the advice of Sohn speakers last year would have produced a mixed bag (see table, "Good, Bad, Ugly"). Short-seller Jim Chanos scored with First Solar (FSLR) and Vestas Wind (VWDRY), and Phil Falcone of Harbinger Capital had a good call with Crosstex Energy . Losers included bullish calls on Sprint (S), Goldman Sachs (GS), and Tiffany (TIF).

Heavy Hitters' Plays

Some recommendations from 10 of the presenters at this year's Ira Sohn Investment Conference:

Investor	Firm	Recommendation/Ticker
Larry Robbins	Glenview Capital	Hospital stocks
		Short: ITC / ITC
Jonathan Kolatch	Redwood Capital	Argentine bonds
Dwight Anderson	Ospraie Mgmt.	Westlake Chem / WLK
Meryl Witmer	Eagle Capital	Gildan Activewear / GIL
		Viacom / VIAB
Jeff Gundlach	DoubleLine Capital	Spanish stocks; natural gas
		Short: Nordstrom / JWN, Apple / AAPL
David Einhorn	Greenlight Capital	GJF / GJF.Norway, Apple / AAPL
		Short: Martin Marietta / MLM
Steve Mandel	Lone Pine Capital	Kohl's / KSS
John Paulson	Paulson & Co.	AngloGold Ashanti / AU
		Caesars Entertainment / CZR
John Lykouretzos	Hoplite Capital	Starbucks / SBUX
Bill Ackman	Pershing Square	J.C. Penney / JCP

Good, Bad, Ugly

How 15 long and short picks from last year's conference fared:

			Price
Investor	**Firm**	**Recommendation/Ticker**	**Change***

Dinakar Singh	TPG-Axon Capital	Orkla / ORK.Norway	-18.1%
		Sprint / S	-58.9
Jeff Aronson	Centerbridge Partners	CIT Group / CIT	-13.0
Bob Howard	KKR	HSN / HSNI	21.2
Phil Falcone	Harbinger Capital	Crosstex Energy / XTXI	53.8
Jim Chanos	Kynikos Associates	Short: Vestas Wind / VWDRY	-77.3
		Short: First Solar / FSLR	-88.7
Michael Price	MFP Investors	Goldman Sachs / GS	-28.0
Peter May	Trian Fund	Tiffany / TIF	-9.7
Bill Ackman	Pershing Square	Family Dollar / FDO	23.6
Mark Hart	Corriente Advisors	Short: China**	-19.5
David Einhorn	Greenlight Capital	Delta Lloyd / DL.Netherlands	-28.9
		Microsoft / MSFT	23.8
Carl Icahn	Icahn & Co.	Icahn Enterprises / IEP	8.5
Sunjay Gorawara	Indiana U. Student	Bridgepoint Ed. / BPI	-4.9
S&P 500			0.7%

*From 2011 Sohn Conference through May 16 ** SPDR S&P China ETF. Source: Bloomberg

--

Penney sales plunge, but CEO vows to "stay the course"

Published: Friday, 10 Aug 2012 | 7:18 AM ET

Reuters) - J.C. Penney Co Inc <JCP.N> reported a deeper-than-expected drop in quarterly sales at stores open at least a year, leading to a big loss, in the department store chain's second straight quarter of severe sales declines since changing its pricing strategy last winter.

Same-store sales fell 21.7 percent during the second quarter, steeper than the 17.4 percent drop analysts were expecting, according to Thomson Reuters. Revenue tumbled 22.6 percent to $3.02 billion, also below Wall Street's low expectations.

In February Penney eliminated the use of coupons and discounts in favor of everyday low prices. The move cost the 102-year-old retailer many shoppers.

The company last week debuted the first of its boutiques within a store, the other prong of Penney's transformation that will eventually see each store carved into a collection of 100 spaces for brands such as Levi's, Jonathan Adler, and Betsey Johnson.

In a statement, Chief Executive Ron Johnson, the man who built up Apple Inc's <AAPL.O> retail chain and the architect of Penney's turnaround strategy, vowed to stay the course.

"While business continues to be softer than anticipated, we are confident the transformation of jcpenney is on track," he said, adding that Penney is positioned to grow again in 2013. Weaning shoppers off discounts will take time, he said.

But faced with a mutiny by customers long trained to look for sales and use coupons, Johnson has backtracked a bit in recent weeks, making concessions like using the word "clearance" to denote items on sale and simplifying pricing to two levels rather than three.

Many experts says Johnson needs to make even more concessions on his pricing ahead of the crucial holiday season, as Penney faces pressure from Macy's and Kohl's Corp <KSS.N>, among others, which still use sales and discounts.

"I am very skeptical as to whether he (Johnson) understands that the J.C. Penney customer is looking for value and perceives value only with couponing," said Walter Loeb, president of Loeb Associates, a management consultancy to the retail industry.

"As long as Macy's keeps banging away, I don't think he has a ghost of chance." Macy's on Wednesday reported its second quarter same-store sales were up 3 percent.

Shares of Penney, whose customers are typically more price-sensitive than those of Macy's Inc <M.N>, were down 6 percent to $20.75 in light premarket trading.

DEEP LOSS

Penney reported a net loss of $147 million, or 67 cents per share, for the second quarter ended July 28, compared with a profit of $14 million, or 7 cents per share, a year before.

Excluding items, Penney lost 37 cents per share, compared with analyst projections of 25 cents.

The company said it no longer expects to meet its earlier full-year profit forecast but did not give an updated estimate.

Penney's poor sales forced the retailer to mark down unsold items, knocking down its gross margin 5.1 points to 33.2 percent of sales.

The company's sales also were hurt when it pulled back on advertising in late June and July as it rethought its pricing and marketing for back-to-school - just as business was picking up at Macy's and Kohl's.

But the company, which has laid off hundreds of workers at its headquarters and in stores, said it expects savings to exceed $900 million by the end of the year.

And Penney, which was downgraded by some ratings agencies during the quarter, said it would have $1 billion in cash at the end of the fiscal year.

(Reporting by Phil Wahba in New York; editing by John Wallace and Gerald E. McCormick)