J C PENNEY CO INC
Form 424B1
February 26, 2003
Table of Contents

PROSPECTUS SUPPLEMENT TO PROSPECTUS DATED FEBRUARY 24, 2003.

$600,000,000

Filed pursuant to Rule 424(B) (1)

SEC File No. 333-103147

and

SEC File No. 333-103147-01

J. C. Penney Corporation, Inc.

8% Notes due March 1, 2010

Co-Obligation of

J. C. Penney Company, Inc.

We will pay interest on the notes each March 1 and September 1. The first interest payment will be made on September 1, 2003.

The notes will be redeemable in whole or in part, at our option at any time, at a redemption price equal to the greater of (i) 100 percent of the principal amount of such notes or (ii) the sum of the present values of the remaining scheduled payments discounted to the redemption date on a semiannual basis at the treasury yield (as defined below) plus 50 basis points, together in either case with accrued interest to the date of redemption.

We have made application to have the notes listed on The New York Stock Exchange.

Investing in the notes involves risks. See Risk Factors on page S-9.

	Price to Public(1)	Underwriting Discounts and Commissions	Proceeds to Company(2)
Per Note	99.342%	1.65%	97.692%
Total	$ 596,052,000	$ 9,900,000	$ 586,152,000

(1) Plus accrued interest, if any, from February 28, 2003.
(2) Before deduction of expenses payable by the Company, estimated at $50,000.

Delivery of the notes, in book-entry form only, will be made on or about February 28, 2003.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement is truthful or complete. Any representation to the contrary is a criminal offense.

Credit Suisse First Boston **JPMorgan**

Wachovia Securities Fleet Securities, Inc. HSBC

The date of this prospectus supplement is February 25, 2003.

Table of Contents

This document is in two parts. The first is this prospectus supplement, which describes the specific terms of this Note offering. The second part, the accompanying prospectus, gives more general information, some of which may not apply to this offering. If the description of the offering varies between this prospectus supplement and the accompanying prospectus, you should rely on the information in this prospectus supplement.

You should rely only on the information contained in this document or to which we have referred you. We have not authorized anyone to provide you with information that is different. This document may only be used where it is legal to sell these securities. The information in this document may only be accurate on the date of this document.

TABLE OF CONTENTS

	Page
PROSPECTUS SUPPLEMENT	
Summary	S-1
Risk Factors	S-9
Use of Proceeds	S-11
Capitalization	S-12
Selected Consolidated Financial Information and Other Data	S-13
Management	S-17
Description of Notes	S-19
Description of Certain Indebtedness	S-22
Certain United States Federal Income Tax Consequences	S-22
Underwriting	S-23
Notice to Canadian Residents	S-24
Validity of Notes	S-25
Independent Auditors	S-25
PROSPECTUS	
Important Information About This Prospectus	1
Where You Can Find More Information	1
Incorporation by Reference	1
Cautionary Statement Regarding Forward-Looking Statements	2
The Company	3
Use of Proceeds	3
Ratio of Available Income to Fixed Charges	4
Description of Securities	4
Validity of Securities	10
Independent Auditors	10
Plan of Distribution	11

Table of Contents

SUMMARY

This summary highlights information more fully described elsewhere in this prospectus supplement and the accompanying prospectus. Because this is a summary, it is not complete and does not contain all of the information that you should consider before investing in the notes. You should carefully read this prospectus supplement and the accompanying prospectus, including the SEC filings that we have incorporated by reference into the prospectus and the Risk Factors section before deciding to invest in our notes.

Company Overview

JCPenney was founded by James Cash Penney in 1902 and has grown to be a major retailer with 2002 sales of $32.3 billion. Our Department Store and Catalog business is comprised of approximately 1,049 JCPenney department stores in 49 states, Puerto Rico and Mexico, approximately 54 Renner department stores in Brazil, the JCPenney Catalog and our Internet operations at *jcpenney.com*. Merchandise offerings for Department Stores and Catalog consist of family apparel, jewelry, shoes, accessories and home furnishings.

Our Eckerd Drugstores business is comprised of approximately 2,686 drugstores located throughout the Southeast, Sunbelt and Northeast regions of the United States. Eckerd has the number one or number two market share in virtually all of its major markets. Eckerd drugstores sell prescription drugs as well as general merchandise items such as over-the-counter drugs, beauty products, photo processing services, greeting cards and convenience food.

On January 27, 2002, J. C. Penney Company, Inc. was reorganized into a holding company structure. As part of this restructuring, the former J. C. Penney Company, Inc. changed its name to J. C. Penney Corporation, Inc. and became a wholly-owned subsidiary of a newly formed affiliated holding company. The new holding company assumed the name J. C. Penney Company, Inc., and is referred to in this prospectus supplement as the Co-Obligor. J. C. Penney Corporation, Inc. is referred to in this prospectus supplement as the Issuer.

The Issuer is a wholly-owned subsidiary of the Co-Obligor. The Co-Obligor is a holding company that derives its operating income and cash flow from the Issuer. The Co-Obligor is the sole stockholder of the Issuer and the Issuer is the Co-Obligor s sole significant asset and only direct subsidiary. The Co-Obligor is also the co-obligor or guarantor, as the case may be, on all other outstanding debt of the Issuer which has been registered with the Securities and Exchange Commission, referred to in this prospectus supplement as the SEC. The Co-Obligor and its consolidated subsidiaries, including the Issuer, are collectively referred to in this prospectus supplement as we, us, our, JCPenney or the Company, unless indicated otherwise.

Business Strategy Department Stores and Catalog

Our primary objective in our Department Store and Catalog business is to offer fashion-right, quality merchandise at moderate department store prices. We are currently beginning the third year of a five-year turnaround program, and management has completed numerous initiatives to increase sales and improve profitability. Improvements to date include:

centralized merchandising;

a more competitive and fashionable product offering;

appealing and compelling marketing;

a new, centralized logistics network;

experienced hires in management and merchandising;

enhanced in-store presentation and centralized check-out; and

new catalog processes and policies.

As a result of these initiatives, sales in our Department Store and Catalog business reached $17.7 billion in 2002. In addition, department stores had average monthly comparable store sales growth in 2002 that exceeded the industry average. Our turnaround strategies and cost-cutting initiatives are also expanding our margins as FIFO gross margins and operating profits have improved significantly since 2000. In addition, we have improved the catalog operation s contribution to profitability. Though catalog sales have declined, margin contribution has improved due to rationalized circulation, improved merchandise selection, enhanced picture and paper quality, shipping and payment policy changes and the introduction of revised specialty catalogs. Our Internet business is also continuing to grow and is benefiting from the operational improvements in our print catalog business.

We believe that on-going initiatives in Department Stores and Catalog will further grow sales and improve operating profits. Our continuing turnaround efforts include enhancing systems to provide better inventory data and more visibility into selling patterns, completion of our centralized logistics network, better merchandise assortments, enhanced marketing and visual presentations, improved catalog profitability, and continued growth in our Internet business. We expect sales growth and margin improvement in Department Stores and Catalog to continue with the goal of achieving a six percent to eight percent FIFO operating profit in 2005.

Business Strategy Eckerd Drugstores

Our strategy in our Eckerd business is to provide customers with a convenient, competitively priced drugstore shopping experience. We are beginning the final year of a three-year turnaround program at Eckerd Drugstores. The initiatives completed over the last two years include:

- the rollout of a new store layout that emphasizes productive merchandise categories to over 50 percent of our store base;
- price reductions on approximately 5,000 front-end items;
- an improved advertising message that communicates value and assortment;
- a reduced cost infrastructure; and
- better inventory management.

The above initiatives have resulted in substantially improved operating performance at Eckerd Drugstores. In 2002, total sales reached $14.6 billion and comparable store sales growth was 5.2 percent. Sales at relocated stores, and stores configured to the new layout continue to outperform sales at the remaining stores. In addition, improved shrinkage and reduced costs have helped to expand FIFO operating profit since 2000. In-stock levels and inventory turns have also significantly improved.

We are currently focusing on the following initiatives with respect to the Eckerd turnaround:

- a more productive and larger new store prototype that expands several front-store categories, has a flexible pharmacy and a more efficient back room;
- a revitalized store opening program that includes entering the Phoenix, Tucson and Denver markets;
- the implementation of our supply chain perpetual inventory system to further improve merchandise in-stocks and inventory turns;
- the implementation of our Pharmacy Vision system to improve pharmacy productivity and customer service; and
- a continued focus on in-store execution, marketing a value message and price competitiveness.

We expect pharmacy growth to continue as demographics and managed care programs drive drug utilization, and gross margins should also continue expanding due to increased sales of generic drugs. As a result, we expect Eckerd s sales growth and margin expansion to continue with the goal of a four percent to four and a half percent FIFO operating profit in fiscal 2003.

Table of Contents

Recent Developments

On February 20, 2003, we issued a press release announcing our unaudited financial results for the fourth quarter and fifty-two weeks ended January 25, 2003 and providing guidance for fiscal 2003.

Total sales were $9.5 billion for the fourth quarter and $32.3 billion for the year. Total segment EBITDA was $670 million for the fourth quarter and $1.7 billion for the year. Total LIFO segment operating profit was $506 million for the fourth quarter and $1.1 billion for the year compared with $342 million and $756 million for the comparable periods last year. Diluted earnings per share from continuing operations were $0.68 for the fourth quarter and $1.25 for the full year compared with $0.32 and $0.32 for the comparable periods last year. Fourth quarter earnings include $83 million in pre-tax charges, which are comprised of a $66 million charge related principally to asset impairments for selected department stores in the United States and Mexico and a $17 million charge for severance associated with the previously announced closing of store and catalog distribution facilities.

Department Store and Catalog sales were $5.8 billion for the quarter and $17.7 billion for the year. Comparable department store sales increased 1.9 percent for the quarter and 2.6 percent for the year. Catalog sales decreased 20.7 percent in the fourth quarter and 22.0 percent for the year. Internet sales, which are included in Catalog, increased 21.4 percent to $138 million in the fourth quarter and were $381 million for the year. LIFO gross margins increased 290 basis points for the fourth quarter and 230 basis points for the year. Fourth quarter LIFO operating profit increased 160 basis points as a percent of sales to $346 million, compared to $256 million last year. LIFO operating profit for the year increased 90 basis points as a percent of sales to $695 million, compared to $548 million last year.

At Eckerd, sales were $3.8 billion for the fourth quarter and $14.6 billion for the year. Comparable store sales increased by 2.5 percent during the quarter, with pharmacy comparable sales increasing 5.0 percent, and non-pharmacy, or front-end comparable store sales decreasing 2.1 percent. For the full year, comparable store sales increased 5.2 percent, with pharmacy comparable sales increasing 7.6 percent and non-pharmacy sales increasing 0.6 percent. Fourth quarter LIFO gross margins increased by 160 basis points, while for the year they increased 80 basis points. Fourth quarter LIFO operating profit increased 180 basis points as a percent of sales to $160 million, compared to $86 million last year. LIFO operating profit for the year increased 130 basis points as a percent of sales to $412 million, compared to $208 million last year.

The Company s financial condition and liquidity strengthened throughout the year. Free cash flow was over $500 million in 2002, and the Company contributed $300 million, or $190 million after-tax, in the fourth quarter to its pension plan. At year-end, cash investments were approximately $2.5 billion and total debt, including securitized receivables of $200 million, was approximately $5.4 billion.

We currently expect 2003 earnings to be in the range of $1.50 to $1.70 per share for the year. In 2003, we expect comparable store sales at department stores to increase approximately one percent for the year. While Internet sales are expected to continue increasing, total catalog including Internet sales are expected to decline in the five to ten percent range for the year. At Eckerd, we expect total sales to grow in the high single digits and comparable store sales to increase mid-single digits for the year. In total, Eckerd FIFO operating profit is expected to reach our four to four and a half percent target.

We currently expect 2003 capital expenditures to be in the range of $900 million to $1.1 billion, compared to approximately $650 million in 2002. Given this higher level of capital expenditures, our 2003 plan for free cash flow is negative $250 million. However, given our current cash position, we do not plan to borrow under the bank line of credit during 2003, even for the peak seasonal inventory during the August to

November timeframe.

Table of Contents

The Offering

Issuer	J. C. Penney Corporation, Inc.
Co-Obligor	J. C. Penney Company, Inc.
Securities Offered	$600,000,000 aggregate principal amount of 8% notes due March 1, 2010.
Issue Price	99.342 percent.
Interest	Interest on the notes will accrue from February 28, 2003. Interest on the notes will be payable semi-annually in cash on March 1 and September 1 of each year, commencing September 1, 2003.
Optional Redemption	The notes will be redeemable in whole or in part, at our option at any time, at a redemption price equal to the greater of (i) 100 percent of the principal amount of such notes or (ii) the sum of the present values of the remaining scheduled payments discounted to the redemption date on a semiannual basis at the applicable Treasury Yield (as defined below) plus 50 basis points.
Ranking	The notes will be senior, unsecured obligations of the Issuer ranking equally in right of payment with other senior indebtedness of the Issuer.
	The notes will also be senior, unsecured obligations of the Co-Obligor, ranking equally in right of payment with other senior indebtedness of the Co-Obligor.
Certain Covenants	The indenture contains covenants that will limit our ability to create certain liens and engage in certain sale leaseback transactions. The indenture does not limit the amount of debt that the Issuer, the Co-Obligor or any of their subsidiaries may incur.
Listing	We have made application to have the notes listed on The New York Stock Exchange.
Use of Proceeds	We will use the net proceeds for general corporate purposes. See Use of Proceeds.
Risk Factors	You should carefully consider the information under the heading Risk Factors and all other information in this prospectus supplement and the accompanying prospectus before investing in the notes.

For additional information regarding the notes, see Description of Notes in this prospectus supplement and Description of Securities in the accompanying prospectus.

Table of Contents

Summary Consolidated Financial Information and Other Data

Please read the summary consolidated financial and other data set forth below in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and with our consolidated financial statements and notes, all incorporated herein by reference. Our fiscal year comprises 52 or 53 weeks, ending on the last Saturday in January. As used in this section, fiscal year 1999 represents the 52 weeks ended January 29, 2000, fiscal year 2000 represents the 52 weeks ended January 27, 2001 and fiscal year 2001 represents the 52 weeks ended January 26, 2002. The following table sets forth historical summary data for fiscal years 1999 through 2001 and the 39 weeks ended October 27, 2001 and October 26, 2002. This data, other than that for the 39 weeks ended October 27, 2001 and October 26, 2002, have been derived from our consolidated financial statements that have been audited by KPMG LLP, independent auditors, and are incorporated herein by reference. The data for the 39 weeks ended October 27, 2001 and October 26, 2002 are derived from our unaudited consolidated financial statements, which are incorporated herein by reference. Our historical operating results are not necessarily indicative of our operating results for any future period.

	Fiscal Year			39 Weeks Ended[1]	
	1999	2000	2001	Oct. 27, 2001	Oct. 26, 2002
				(unaudited)	
	(dollars in millions, except per share and other operating data)				
Statement of Operations Data:					
Department stores and catalog sales	$ 19,316	$ 18,758	$ 18,157	$ 12,277	$ 11,939
Eckerd drugstore sales	12,427	13,088	13,847	10,185	10,859
Total retail sales	31,743	31,846	32,004	22,462	22,798
Department stores and catalog operating profit	670	254	548	292	349
Eckerd drugstores operating profit/(loss)	183	(76)	208	122	252
Total segment operating profit	853	178	756	414	601
Other unallocated[2]	156	515	46	23	19
Income/(loss) from continuing operations	174	(568)	114	19	169
Income from discontinued operations net of tax	162	159			
Gain/(loss) on sale of discontinued operations, net of tax		(296)	(16)	(16)	34
Net income/(loss)	336	(705)	98	3	203
Per Share Data:					
Income/(loss) from continuing operations	$ 174	$ (568)	$ 114	$ 19	$ 169
Less: preferred stock dividends, net of tax	36	33	29	22	20
Earnings/(loss) from continuing operations applicable to common stockholders[3]	138	(601)	85	(3)	149
Net income/(loss) applicable to common stockholders[4]	300	(738)	69	(19)	183
Diluted income/(loss) from continuing operations per share	$ 0.54	$ (2.29)	$ 0.32	$ (0.01)	$ 0.55
Diluted net income/(loss) per share	$ 1.16	$ (2.81)	$ 0.26	$ (0.07)	$ 0.68
Other Operating Data:					
Comparable store sales[5] increase/(decrease)					
Department stores	(1.1)%	(2.4)%	3.3%	2.9%	3.0%
Eckerd pharmacy	15.6 %	14.0 %	11.7%	12.6%	7.3%
Eckerd drugstores total	10.7 %	8.5 %	7.8%	8.6%	6.2%
Number of stores (at period end)					

Department stores	1,178	1,160	1,129	1,129	1,115
Eckerd drugstores	2,898	2,640	2,641	2,636	2,656

Table of Contents

	Fiscal Year			39 Weeks Ended[1]	
	1999	2000	2001	Oct. 27, 2001	Oct. 26, 2002
				(unaudited)	
	(dollars in millions, except per share and other operating data)				
Balance Sheet Data:					
Cash and short-term investments	$ 1,155	$ 944	$ 2,840	$ 1,791	$ 1,748
Working capital	3,902	3,022	4,178	4,001	4,387
Total assets[6]	20,908	19,742	18,048	18,402	17,860
Total debt	6,799	5,698	6,114	6,119	5,212
Stockholders equity	7,228	6,259	6,129	6,063	6,218
Other Financial Data:					
Capital expenditures	$ 722	$ 678	$ 631	$ 497	$ 451
Cash dividends per common share	1.92	0.83	0.50	0.38	0.38
Ratio of earnings to fixed charges	1.29x	(7)	1.27x	1.06x	1.45x
Segment EBITDA[8]:					
Department Stores and Catalog					
Segment operating profit (earnings before interest, credit operations and taxes)	$ 670	$ 254	$ 548	$ 292	$ 349
Depreciation and amortization	386	360	370	282	276
Credit operating results	313				
Department Stores and Catalog EBITDA	$ 1,369	$ 614	$ 918	$ 574	$ 625
Eckerd Drugstores					
Segment operating profit/(loss) (earnings before interest and taxes)	$ 183	$ (76)	$ 208	$ 122	$ 252
Depreciation and amortization	193	213	226	167	185
Eckerd Drugstores EBITDA	$ 376	$ 137	$ 434	$ 289	$ 437
Total Segments					
Segment operating profit (earnings before interest, credit operations and taxes)	$ 853	$ 178	$ 756	$ 414	$ 601
Depreciation and amortization	579	573	596	449	461
Credit operating results	313				
Total Segment EBITDA	$ 1,745	$ 751	$ 1,352	$ 863	$ 1,062
Reconciliation of Income/(Loss) from Continuing Operations to Total Segment EBITDA[8]:					
Income/(loss) from continuing operations	$ 174	$ (568)	$ 114	$ 19	$ 169
Add back:					
Income taxes	104	(318)	89	14	97
Acquisition amortization[9]	125	122	121	73	25
Net interest expense (excluding credit operations)	607	427	386	285	291
Other unallocated[2]	156	515	46	23	19
Segment depreciation and amortization	579	573	596	449	461
Total Segment EBITDA	$ 1,745	$ 751	$ 1,352	$ 863	$ 1,062

S-6

Table of Contents

(1) 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 39 weeks ended October 26, 2002 are not necessarily indicative of results for the entire year. (See Summary Recent Developments.)

(2) Includes amounts reported separately in previous filings as restructuring and other, net.

(3) Earnings/(loss) from continuing operations is the same for calculating diluted EPS.

(4) Net income/(loss) is the same for calculating diluted EPS.

(5) Department store comparable store sales include the sales of stores after having been open for 12 consecutive months. Stores become comparable on the first day of the 13th month. Eckerd comparable store sales include the sales of stores after having been opened for at least one full year and include all sales of relocated stores.

(6) Includes assets of discontinued operations (in millions) of $2,847, $3,027 and $0 at year-end 1999, 2000 and 2001, respectively, and $0 at both October 27, 2001 and October 26, 2002.

(7) Income from continuing operations was not sufficient to cover fixed charges by $887 million for fiscal 2000.

(8) EBITDA includes segment operating profit before depreciation and amortization and includes credit operating results for 1999. EBITDA is provided as an alternative assessment of operating performance. It is not intended to be a substitute for measurements under U.S. generally accepted accounting principles, and the items excluded in determining EBITDA are significant components in understanding and assessing financial performance. Calculations of EBITDA may vary for other companies. In previous filings, the Company showed EBITDA before the effects of non-comparable items. These non-comparable items are defined and discussed in the 2001 10-K and totaled (in millions) $139, $208 and $(6) for 1999, 2000 and 2001, respectively, and $(6) and $0 for the 39 weeks ended October 27, 2001 and October 26, 2002, respectively.

(9) Effective January 27, 2002, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets. Upon adoption, the Company ceased amortization of goodwill and other indefinite-lived intangible assets, primarily the Eckerd trade name. These assets are now subject to an impairment test on an annual basis, or when there is reason to believe that their values have been diminished or impaired. Other intangible assets with estimable useful lives will continue to be amortized over those lives. No impairment losses were recognized due to the change in accounting principle.

Table of Contents

The following table summarizes the condensed consolidated pro forma results of operations for the years and partial years presented above as if SFAS No. 142 had been in effect for all periods presented:

	Fiscal Year			39 weeks ended	
	1999	2000	2001	Oct. 27, 2001	Oct. 26, 2002
	(dollars in millions, except EPS)				
Reported net income/(loss)	$ 336	$ (705)	$ 98	$ 3	$ 203
Goodwill and trade name amortization	69	72	72	44	
Adjusted net income/(loss)	$ 405	$ (633)	$ 170	$ 47	$ 203
Earnings per share (EPS) basic:					
Reported net income/(loss)	$ 1.16	$ (2.81)	$ 0.26	$ (0.07)	$ 0.68
Goodwill and trade name amortization	0.26	0.27	0.27	0.16	
Adjusted net income/(loss)	$ 1.42	$ (2.54)	$ 0.53	$ 0.09	$ 0.68
Earnings per share (EPS) diluted:					
Reported net income/(loss)	$ 1.16	$ (2.81)	$ 0.26	$ (0.07)	$ 0.68
Goodwill and trade name amortization	0.26	0.27	0.27	0.16	
Adjusted net income/(loss)	$ 1.42	$ (2.54)	$ 0.53	$ 0.09	$ 0.68

Table of Contents

RISK FACTORS

Investing in the notes involves risk. You should carefully consider all the information included or incorporated by reference in this prospectus supplement and the accompanying prospectus before deciding whether to make an investment. In particular, you should carefully consider the risks and uncertainties referred to below or listed under Forward-Looking Statements in the accompanying prospectus. However, these risks and uncertainties are not the only risks which we face.

Risks Relating To Ownership Of The Notes

The notes will be effectively subordinated to the rights of our existing and future secured creditors to the extent of the value of the collateral by which that indebtedness is secured and structurally subordinated to guarantees of any such obligations by certain of our subsidiaries, and to the subsidiaries indebtedness.

The notes will be senior unsecured obligations and will rank *pari passu* in right of payment with all other existing and future senior unsecured obligations of the Issuer and the Co-Obligor. The notes will effectively rank junior to our existing and future secured debt as to the assets securing such debt. On May 31, 2002, we replaced our expiring revolving credit and letter of credit facilities with a new $1.5 billion senior secured credit facility. As of January 25, 2003, we had no cash borrowings outstanding under, and approximately $206 million in letters of credit supported by, this facility. The obligations under this credit facility are guaranteed by J. C. Penney Company, Inc. and our material subsidiaries, other than our drug store subsidiaries, and secured by a security interest on all of the domestic department store and catalog inventory of J. C. Penney Corporation, Inc. Accordingly, the notes will be effectively subordinated to all such secured indebtedness to the extent of the value of such collateral, and structurally subordinated to the guarantees of that indebtedness by such subsidiaries. Upon an event of default under the credit facility, the lenders could elect to declare all amounts outstanding, together with accrued and unpaid interest thereon, to be immediately due and payable. If we were unable to repay those amounts, the lenders would have available to them the rights of secured lenders and could proceed against the collateral granted them to secure that indebtedness. In addition, there can be no assurance that our department store and catalog inventory, which serves as collateral, would be sufficient to repay in full any such secured indebtedness, in which case any of our remaining obligations under the credit facility would be unsecured and, except to the extent of the structurally senior indebtedness represented by the guarantees, rank *pari passu* in right of payment with the notes. The notes will effectively rank junior to all existing and future obligations of our subsidiaries. We cannot assure you that there will be sufficient assets to pay amounts due on the notes.

Our credit facility contains restrictive covenants and financial ratios.

Our credit facility contains restrictive covenants that will limit the discretion of our management with respect to certain business matters. These covenants place restrictions on, among other things, our ability to incur additional indebtedness, to create liens or other encumbrances on our and our subsidiaries assets, to make loans, guarantees, investments and acquisitions, to sell or otherwise dispose of assets, to merge or consolidate with another entity, to make negative pledges and to change our business materially. The credit facility also contains financial covenants that require us to maintain a ratio of funded debt to EBITDA (as defined in the agreement) below stipulated thresholds and a minimum asset coverage ratio. A failure to comply with the obligations contained in the credit facility, if not cured or waived, would prevent us from borrowing under the credit facility, thereby depriving us of necessary liquidity to finance our operations, and could permit acceleration of our obligations thereunder and acceleration of indebtedness under other instruments that contain cross-acceleration or cross-default provisions. In the case of an event of default under the credit facility, the lenders under the credit facility would be entitled to exercise the remedies available to a secured party under applicable law. If we were obligated to repay all or a significant portion of our indebtedness under the credit facility, there can be no assurance that we would have sufficient cash to do so or that we could successfully refinance such indebtedness. Other indebtedness that we may incur in the future may contain financial or other covenants more restrictive than those applicable to the credit facility.

We will use a portion of our cash flow from operations to make payments, consisting primarily of interest and principal, on our debt. This will reduce the funds available for our operations and capital expenditures. Also, the overall amount of debt we have outstanding and the restrictive covenants contained in the terms of that debt may make us vulnerable to economic downturns and competitive pressures, and may hinder our ability to accomplish our strategic objectives.

The indenture does not restrict our ability to incur indebtedness or afford protection in the event of a change of control.

We will be able to incur substantial additional indebtedness in the future. As of January 25, 2003 we had $1.3 billion available for additional borrowing under our credit facility. In addition, the indenture will not afford any protection in the event of a takeover, recapitalization or other change of control transaction involving our company, which may be highly leveraged.

An active trading market may not develop for the notes, and you may not be able to resell the notes.

The notes are new securities with no previous existing trading market. We intend to list the notes on The New York Stock Exchange and the underwriters have informed us that they initially intend to make a market in the notes but they are not obligated to do so. The underwriters may discontinue such market-making activity at any time without notice. However, both the liquidity and market price of the notes may be adversely affected by changes in our financial performance or prospects, or in the prospects for companies in our industry generally. We cannot assure you that an active or stable trading market will develop for the notes.

Risks Relating to Our Business

We may not accurately anticipate fashion trends, customer preferences and other fashion-related factors.

The retail industry is subject to changing fashion trends, customer preferences and customer financial status. We cannot guarantee that our merchandise selection will accurately reflect customer preferences at any given time or that we will be able to identify and respond quickly to fashion changes, particularly given the long lead times for ordering much of our merchandise from vendors. If we fail to accurately anticipate either the market for the merchandise or the customers   purchasing habits, we may be required to sell a significant amount of unsold inventory at discounted prices or even below cost, which could have a material adverse effect on our business, financial condition and results of operations.

We may not be able to maintain our margin on pharmacy sales or attract and retain a sufficient number of licensed pharmacists.

Pharmacy sales represent a significant and growing percentage of our total drugstore sales. Pharmacy sales accounted for approximately two-thirds of total drugstore sales for fiscal 2002. Eckerd s pharmacy sales have lower margins than non-pharmacy sales and are also subject to increasing margin pressure, as managed care organizations, insurance companies, employers and other third party payors, which collectively we call third party plans, become more prevalent and as these plans continue to seek cost containment. Also, any substantial delays in

reimbursement, or a significant reduction in coverage or payment rates from third party plans, can have a material adverse effect on our drugstore business. Pharmacy sales to third party plans accounted for approximately 90 percent of Eckerd s total pharmacy sales for fiscal 2002.

The success of our drugstore operations is also dependent in part on our ability to attract and retain licensed pharmacists. There currently exists an industry-wide shortage of pharmacists. Eckerd has taken steps to address this shortage, including replacing certain pension benefits with an enhanced 401(k) savings program that is more competitive in the drugstore industry and is designed to attract and retain qualified personnel, especially pharmacists. While this shortage has not to date had an adverse impact on Eckerd s operations or earnings, there is no guarantee that Eckerd s operations and earnings will not be adversely affected by a pharmacist shortage in the future.

Table of Contents

We may not be able to attract or retain a sufficient number of customers in a highly competitive retail environment.

We compete primarily with department stores, drug stores and mass merchandisers, many of which are units of national or regional chains that have significant financial and marketing resources. The principal competitive factors in our markets are price, quality, selection of merchandise, reputation, store location, advertising and customer service. We cannot assure you that we will continue to be able to compete successfully against existing or future competitors. Our expansion into markets served by our competitors and entry of new competitors or expansion of existing competitors into our markets could have a material adverse effect on our business, financial condition and results of operations.

Although we sell merchandise via the Internet through jcpenney.com, a significant shift in customer buying patterns to purchasing merchandise via the Internet could have a material adverse effect on us. Internet retailing is extremely competitive and could result in fewer sales and lower margins to us. We continue to rely on store and catalog sales for a substantial majority of our revenue.

We may experience significant fluctuations in our operating results.

We have experienced fluctuations in our operating results in recent periods and may continue to do so in the future. Lower and unprofitable operating results could inhibit our ability to pay our debts, including these notes.

We may not be able to obtain adequate capital to support our operations and growth strategies.

Our operations and growth strategy require adequate capital, the availability of which depends on our ability to generate cash flow from operations, borrow funds on satisfactory terms and raise funds in the capital markets. We may need additional seasonal borrowing capacity in addition to the funds currently available under our revolving credit facility to fund our working capital requirements. The inability to obtain adequate capital could have a material adverse effect on our business and results of operations.

We may not be able to retain key executives or other personnel.

We have recently hired several key members of our management team. We feel that our success is largely dependent on the performance of this management team and other key employees. Our operations could be materially adversely affected if any of our senior executives or other key personnel ceased working for us.

USE OF PROCEEDS

Our net proceeds from the sale of the notes in this offering after deducting underwriting discounts and commissions and estimated offering expenses payable by us will be approximately $586 million. We expect to use these proceeds for general corporate purposes including investments in working capital, capital expenditures and to repay a portion of upcoming debt maturities.

Table of Contents

CAPITALIZATION

The following table sets forth our capitalization as of October 26, 2002 on an actual basis and as adjusted to reflect the receipt of the estimated net proceeds from the sale of the notes (after deducting the underwriting discount and estimated fees and expenses) and pending application of those proceeds. You should read this table in conjunction with the consolidated financial statements and notes incorporated by reference in this prospectus supplement.

	October 26, 2002	
	Actual	As Adjusted
	(dollars in millions)	
Cash and short-term investments	$ 1,748	$ 2,334
Short term debt:		
Short-term debt	15	15
Current maturities of long-term debt	28	28
Total short-term debt	43	43
Long-term debt:		
Long-term debt	5,169	5,169
Notes offered hereby		600
Total long-term debt	5,169	5,769
Total debt	5,212	5,812
Stockholders equity:		
Preferred stock, no par value and stated value of $600 per share: authorized, 25 million shares; issued and outstanding, 0.6 million shares of Series B ESOP convertible preferred	339	339
Common stock, par value $0.50 per share: authorized, 1,250 million shares; issued and outstanding 268 million shares	3,403	3,403
Deferred stock compensation	11	11
Accumulated other comprehensive (loss)	(197)	(197)
Reinvested earnings	2,662	2,662
Total stockholders equity	6,218	6,218
Total capitalization	$ 11,430	$ 12,030

Table of Contents

SELECTED CONSOLIDATED FINANCIAL INFORMATION AND OTHER DATA

Please read the selected consolidated financial and other data set forth below in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and with our consolidated financial statements and notes, all incorporated herein by reference. Our fiscal year is comprised of 52 or 53 weeks, ending on the last Saturday in January. As used in this section fiscal 1997 represents the 53 weeks ended January 31, 1998, fiscal 1998 represents the 52 weeks ended January 30, 1999, fiscal 1999 represents the 52 weeks ended January 29, 2000, fiscal 2000 represents the 52 weeks ended January 27, 2001 and fiscal 2001 represents the 52 weeks ended January 26, 2002. The following table sets forth historical summary data for the fiscal years 1997 through 2001 and the 39 weeks ended October 27, 2001 and October 26, 2002. This data, other than the 39 weeks ended October 27, 2001 and October 26, 2002, has been derived from our consolidated financial statements that have been audited by KPMG LLP, independent auditors, and are incorporated herein by reference. The selected consolidated data for the 39-week periods ended October 27, 2001 and October 26, 2002 are derived from our unaudited consolidated financial statements which are incorporated herein by reference. Our historical operating results are not necessarily indicative of our future operating results.

	Fiscal Year					39 Weeks Ended[1]	
	1997	1998	1999	2000	2001	Oct. 27, 2001	Oct. 26, 2002
						(unaudited)	
	(amounts in millions, except per share and other operating data)						
Statement of Operations Data:							
Department stores and catalog sales	$ 20,133	$ 19,436	$ 19,316	$ 18,758	$ 18,157	$ 12,277	$ 11,939
Eckerd drugstore sales	9,663	10,325	12,427	13,088	13,847	10,185	10,859
Total retail sales	29,796	29,761	31,743	31,846	32,004	22,462	22,798
Cost of goods sold	20,361	20,621	22,286	23,031	22,789	15,908	15,908
Gross margin	9,435	9,140	9,457	8,815	9,215	6,554	6,890
Selling, general and administrative expenses	7,813	7,966	8,604	8,637	8,459	6,140	6,289
Total segment operating profit	1,622	1,174	853	178	756	414	601
Other unallocated[2]	361	(40)	156	515	46	23	19
Net interest expense and credit operations	454	387	294	427	386	285	291
Acquisition amortization[3]	117	112	125	122	121	73	25
Income/(loss) from continuing operations before income taxes	690	715	278	(886)	203	33	266
Provision/(benefit) for income taxes	277	277	104	(318)	89	14	97
Income/(loss) from continuing operations	413	438	174	(568)	114	19	169
Less: preferred stock dividends, net of tax	40	38	36	33	29	22	20
Earnings/(loss) from continuing operations applicable to common stockholders[4]	$ 373	$ 400	$ 138	$ (601)	$ 85	$ (3)	$ 149
Net income/(loss) applicable to common stockholders[5]	$ 526	$ 556	$ 300	$ (738)	$ 69	$ (19)	$ 183
Per Share Data:							
Income/(loss) from continuing operations							
Basic	$ 1.51	$ 1.58	$ 0.54	$ (2.29)	$ 0.32	$ (0.01)	$ 0.56

Diluted	$ 1.49	$ 1.58	$ 0.54	$ (2.29)	$ 0.32	$ (0.01)	$ 0.55
Net income/(loss)							
Basic	$ 2.13	$ 2.20	$ 1.16	$ (2.81)	$ 0.26	$ (0.07)	$ 0.68
Diluted	$ 2.10	$ 2.19	$ 1.16	$ (2.81)	$ 0.26	$ (0.07)	$ 0.68
Weighted average common shares							
Basic	247.4	252.8	259.4	261.8	263.4	263.2	267.2
Diluted	250.0	254.0	259.4	261.8	267.0	263.2	269.7

Table of Contents

	Fiscal Year					39 Weeks Ended[1]	
	1997	1998	1999	2000	2001	Oct. 27, 2001	Oct. 26, 2002
						(unaudited)	
	(dollars in millions, except per share and other operating data)						
Other Operating Data:							
Comparable store sales [6] increase/(decrease)							
Department stores	(0.3)%	(1.9)%	(1.1)%	(2.4)%	3.3%	2.9%	3.0%
Eckerd pharmacy	12.5%	15.0%	15.6%	14.0%	11.7%	12.6%	7.3%
Eckerd drugstores total	7.4%	9.2%	10.7%	8.5%	7.8%	8.6%	6.2%
Number of stores (at period end)							
Department stores	1,203	1,169	1,178	1,160	1,129	1,129	1,115
Eckerd drugstores	2,778	2,756	2,898	2,640	2,641	2,636	2,656
Balance Sheet Data:							
Cash and short-term investments	$ 227	$ 49	$ 1,155	$ 944	$ 2,840	$ 1,791	$ 1,748
Working capital	5,274	5,022	3,902	3,022	4,178	4,001	4,387
Total assets[7]	23,405	23,605	20,908	19,742	18,048	18,402	17,860
Total debt	8,852	9,505	6,799	5,698	6,114	6,119	5,212
Stockholders equity	7,290	7,102	7,228	6,259	6,129	6,063	6,218
Other Financial Data:							
Capital expenditures	$ 846	$ 800	$ 722	$ 678	$ 631	$ 497	$ 451
Cash dividends per common share	2.14	2.18	1.92	0.83	0.50	0.38	0.38
Segment EBITDA[8]:							
Department Stores and Catalog							
Segment operating profit (earnings before interest, credit operations and taxes)	$ 1,275	$ 920	$ 670	$ 254	$ 548	$ 292	$ 349
Depreciation and amortization	366	380	386	360	370	282	276
Credit operating results	127	224	313				
Department Stores and Catalog EBITDA	1,768	1,524	$ 1,369	$ 614	$ 918	$ 574	$ 625
Eckerd Drugstores							
Segment operating profit/(loss) (earnings before interest and taxes)	$ 347	$ 254	$ 183	$ (76)	$ 208	$ 122	$ 252
Depreciation and amortization	112	139	193	213	226	167	185
Eckerd Drugstores EBITDA	$ 459	$ 393	$ 376	$ 137	$ 434	$ 289	$ 437
Total Segments							
Segment operating profit (earnings before interest, credit operations and taxes)	$ 1,622	$ 1,174	$ 853	$ 178	$ 756	$ 414	$ 601
Depreciation and amortization	478	519	579	573	596	449	461
Credit operating results	127	224	313				
Total Segment EBITDA	$ 2,227	$ 1,917	$ 1,745	$ 751	$ 1,352		