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Form 10-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

(Mark One)

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

For the fiscal year ended January 25, 2003

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ___ to ___

Commission File No. 1-15274

J. C. PENNEY COMPANY, INC.

(Exact name of registrant as specified in its charter)

Delaware	**26-0037077**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

6501 Legacy Drive, Plano, Texas 75024-3698
(Address of principal executive offices)
(Zip Code)

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

(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common stock of 50¢ par value	New York Stock Exchange
Preferred Stock Purchase Rights	New York Stock Exchange

Securities registered pursuant to section 12(g) of the Act:

None
(Title of class)

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

☒ Yes ☐ No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). ☒ Yes ☐ No

State the aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, computed by reference to the price at which the common equity was last sold, as of July 26, 2002: $4,692,668,157.

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. 271,314,707 shares of Common Stock of 50 cents par value, as of April 1, 2003.

DOCUMENTS INCORPORATED BY REFERENCE

	Documents from which portions are incorporated by reference	Parts of the Form 10-K into which incorporated
1.	J. C. Penney Company, Inc. 2002 Annual Report to Stockholders	Part I, Part II, and Part IV
2.	J. C. Penney Company, Inc. 2003 Proxy Statement	Part III
3.	J. C. Penney Funding Corporation Form 10-K for fiscal year 2002	Part I and Part IV

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PART I

1. Business.

Effective January 27, 2002, J. C. Penney Company, Inc. changed its corporate structure to a holding company format. As part of this structure, J. C. Penney Company, Inc. changed its name to J. C. Penney Corporation, Inc. ("JCP"), and became a wholly-owned subsidiary of a newly formed affiliated holding company ("Holding Company"). The new holding company assumed the name J. C. Penney Company, Inc. ("Company"). The Holding Company has no direct subsidiaries other than JCP. The Holding Company has no independent assets or operations. All outstanding shares of common and preferred stock were automatically converted into the identical number of and type of shares in the new holding company. Stockholders' ownership interests in the business did not change as a result of the new structure. Shares of the Company remain publicly traded under the same symbol (JCP) on the New York Stock Exchange. The Company is a co-obligor (or guarantor, as appropriate) regarding the payment of principal and interest on JCP's outstanding debt securities. The guarantee by the Holding Company of certain of JCP's outstanding debt securities is full and unconditional. The Holding Company and its consolidated subsidiaries, including JCP, are collectively referred to in this Annual Report on Form 10-K as "Company" or "JCPenney", unless indicated otherwise.

JCPenney was founded by James Cash Penney in 1902; JCP was incorporated in Delaware in 1924 and the Company was incorporated in Delaware in January 2002. The Company has grown to be a major retailer, operating 1,049 JCPenney department stores in 49 states, Puerto Rico and Mexico. In addition, the Company operates 54 Renner department stores in Brazil. A major portion of the Company's business consists of providing merchandise and services to consumers through department stores, catalog departments and the Internet. Department stores, catalog and the Internet generally serve the same customers and have virtually the same mix of merchandise. In addition, department stores accept returns from sales initiated in department stores, catalog or via the Internet. The Company markets family apparel, jewelry, shoes, accessories and home furnishings. In addition, the Company operates a chain of 2,686 drugstores, primarily through the Eckerd name, located throughout the Southwest, Southeast, Sunbelt, and Northeast regions of the United States.

In June 2001, JCP closed on the sale of its J. C. Penney Direct Marketing Services, Inc. ("DMS") assets, including its J. C. Penney Life Insurance subsidiaries and related businesses to a U.S. subsidiary of AEGON, N.V. ("AEGON"). JCP received cash at closing of approximately $1.3 billion ($1.1 billion after tax). Concurrent with the closing, JCP entered into a 15-year strategic licensing and marketing services arrangement with AEGON designed to offer an expanded range of financial and membership services products to JCPenney customers. Over the term of this arrangement, the Company will receive fee income related to the marketing and sale of certain financial products and membership services. Such amounts will be recognized as earned in the Company's financial statements. The Company's financial statements are presented to reflect DMS as a discontinued operation.

DMS was reflected as a discontinued operation for 2000 with an estimated net loss on the sale of $296 million. Because the transaction closed earlier than anticipated in 2001, income from DMS operations was over a shorter time period, and an additional $16 loss was recorded on the sale of discontinued operations. The Company recorded a $34 million gain in 2002 on the sale of discontinued operations. This gain relates to additional capital loss deductions that the Company is entitled to as a result of a 2002 tax regulation change. The final federal tax liability on the transaction was determined in an agreement between the Company and the Internal Revenue Service.

The business of marketing merchandise and services is highly competitive. The Company is one of the largest department store and drugstore retailers in the United States and it has numerous competitors. Many factors enter into the competition for the consumer's patronage, including price, quality, style, service, product mix, convenience and credit availability. The Company's annual earnings depend to a significant extent on the results of operations for the last quarter of its fiscal year. Fourth quarter segment operating profit for the past two years has averaged about 45% of the full year amount.

Information about certain aspects of the business of the Company included under the captions of "Discontinued Operations" (page 27), "Other Unallocated" (pages 35 to 36), and "Segment Reporting" (page 38), which appears in the section of the Company's 2002 Annual Report to Stockholders entitled "Notes to the Consolidated Financial Statements", "Five-Year Financial Summary (Unaudited)" (page 39), and "Five-Year Operations Summary (Unaudited)" (page 40), which appear in the Company's 2002 Annual Report to Stockholders on the pages indicated in the parenthetical references, is incorporated herein by reference and filed hereto as Exhibit 13 in response to Item 1 of Form 10-K.

The Company's Annual Reports on Form 10-K (since April 13, 1994), quarterly reports on 10-Q (since June 10, 1994), current reports on Form 8-K (since June 22, 1994) and all related amendments are available by accessing the Company's web site: www.jcpenney.net.

In addition, information about J. C. Penney Funding Corporation, a wholly owned consolidated subsidiary of JCP, which appears in Item 1 of its separate Annual Report on Form 10-K for the fiscal year ended January 25, 2003, is incorporated herein by reference and filed hereto as Exhibit 99(a) in response to Item 1 of Form 10-K.

Suppliers. The Company purchases its merchandise from approximately 2,603 domestic and foreign suppliers, many of which have done business with the Company for many years. In addition, Eckerd purchases merchandise and pharmaceuticals from approximately 3,250 suppliers, substantially all of which are domestic. The majority of Eckerd's suppliers have done business with Eckerd for many years. In addition to its Plano, Texas Home Office, the Company, through its international purchasing subsidiary, maintained buying offices in sixteen foreign countries and quality assurance inspection offices in an additional eight foreign countries as of January 25, 2003.

Employment. The Company and its consolidated subsidiaries employed approximately 228,000 persons as of January 25, 2003.

Environment. Environmental protection requirements did not have a material effect upon the Company's operations during fiscal 2002. While management believes it unlikely, it is possible that compliance with such requirements will lengthen lead time in expansion plans and increase construction, and therefore, operating costs due in part to the expense and time required to conduct environmental and ecological studies and related remediation.

Forward-Looking Statements. This Annual Report on Form 10-K may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements, which reflect the Company's current views of future events and financial performance, involve known and unknown risks and uncertainties that may cause the Company's actual results to be materially different from planned or expected results. Those risks and uncertainties include, but are not limited to, competition, consumer demand, seasonality, economic conditions and government activity. Investors should take such risks into account when making investment decisions.

2. Properties.

At January 25, 2003, the Company operated 3,789 retail stores, comprised of 1,049 JCPenney department stores, 54 Renner department stores and 2,686 drugstores, throughout the United States, Puerto Rico, Brazil, and Mexico, of which 212 JCPenney department stores, four Renner department stores and 53 drugstores were owned. The Company also operated five catalog fulfillment centers, of which four were owned. The Company operated fourteen store distribution centers and outside stockrooms of which four were owned. Eckerd operated and owned nine drugstore distribution centers. The Company owned the Company's Home Office facility, Eckerd corporate offices, and Renner's corporate headquarters in Porto Allegre, Brazil. In addition, the Company owned as part of its Home Office approximately 240 acres of property in Plano, Texas, adjacent to the facility. Information relating to certain of the Company's facilities included under the caption "Five-Year Operations Summary (Unaudited)," which appears on page 40 of the Company's 2002 Annual Report to Stockholders, is incorporated herein by reference and filed hereto as Exhibit 13 in response to Item 2 of Form 10-K.

3. Legal Proceedings.

Gayle G. Pitts, et al v. J. C. Penney Company, Inc., J. C. Penney Direct Marketing Services, Inc.("DMS"), J. C. Penney Life Insurance Company n/k/a Stonebridge Insurance Company("JCPenney Life"), J. C. Penney International Insurance Group, Inc., AEGON Special Markets Group, Inc., n/k/a AEGON Direct Marketing Services, Inc., and AEGON USA, Inc., No. 01-03395-F, in the 214th Judicial District Court of Nueces County, Texas; and Appellant(s): Stonebridge Life Insurance Company f/k/a J. C. Penney Life Insurance Company; J. C. Penney Direct

Marketing Services, Inc.; J. C. Penney Company, Inc.; J. C. Penney International Insurance Group, Inc.; AEGON USA, Inc.; and AEGON Special Markets Groups, Inc. n/k/a AEGON Direct Marketing Services, Inc. v. Gayle G. Pitts, et al, No. 13-02540-CV, in the Court of Appeals for the Thirteenth District of Texas.

This is a national class action lawsuit ("the Lawsuit") filed against the above named defendants. It involves the sale of J. C. Penney Life Insurance accidental death and dismemberment ("ADD") insurance over the telephone. The named plaintiffs allege that they did not give permission to defendants to charge their credit cards for ADD insurance premiums. They allege that the scripted questions asked during the telephone sales presentation are inadequate to obtain permission to charge the customer's credit card, primarily because the customer is not told that the insurance company already has his or her credit card number.

The Lawsuit originally also included named plaintiffs who did not deny giving permission to charge their credit cards for premiums, but who alleged that they had submitted claims that were wrongfully denied. Those former named plaintiffs and their claims were severed into a separate lawsuit captioned York, et al v. J. C. Penney Company, Inc., J. C. Penney Direct Marketing Services, Inc., J. C. Penney Life Insurance Company, J. C. Penney International Group, Inc., AEGON Direct Marketing Services, Inc., AEGON USA, Inc., and Commonwealth General Corporation, No. 02-2651-F, in the 214th District Court of Nueces County, Texas ("the Severed Lawsuit").

The assets of DMS, including the stock of JCPenney Life, were sold to Commonwealth General Corporation ("Commonwealth"), a domestic subsidiary of AEGON, N. V., pursuant to a Stock Purchase Agreement (the "Agreement") dated as of March 7, 2001, among Commonwealth as Purchaser, DMS as Seller, and JCP as Parent corporation of DMS. Thus, as a matter of law, all of the liabilities of JCPenney Life stayed with that company after the sale. Commonwealth is currently providing defense to JCP and its subsidiary DMS and to DMS's subsidiary, J. C. Penney International Insurance Group, Inc.

Under the Agreement, JCP and DMS agreed to indemnify Commonwealth for any liability of JCPenney Life, but only to the extent that such liability arises out of or relates to a breach of a representation and warranty in the Agreement. Commonwealth may claim entitlement to indemnification from JCP and DMS if a final determination in the Lawsuit is adverse to JCPenney Life, and Commonwealth successfully contends that the liability arose out of a breach of a representation or warranty in the Agreement. JCP's and DMS's liability for breaches of representations and warranties is subject to both a deductible and a cap.

In September 2002, the trial court certified the Lawsuit as a national class action. There are approximately 14.6 million class members. Defendants have appealed the certification order to the Texas Court of Appeals in Corpus Christi, Texas. The Severed Lawsuit is also pled as a class action, but no motion to certify has been filed.

The Company denies the allegations against it and its current and former subsidiaries in the Lawsuit and the Severed Lawsuit and, along with the other defendants, is vigorously defending the cases and opposing class certification. Although it is too early to predict the outcome of the Lawsuit or the Severed Lawsuit, management is of the opinion that they should not have a material adverse effect on the Company's consolidated financial position or results of operations.

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

No matter was submitted to a vote of stockholders during the fourth quarter of fiscal 2002.

Executive Officers of the Registrant

The following is a list, as of April 1, 2003, of the names and ages of the executive officers of J. C. Penney Company, Inc. and of the offices and other positions held by each such person with the Company. These officers hold identical positions with JCP. References to JCPenney positions held during fiscal years 2001 and earlier (prior to the creation of the holding company) are for JCP. There is no family relationship between any of the named persons.

Name	Offices and other positions held with the Company	Age
Allen Questrom	Chairman of the Board and Chief Executive Officer; Director	62
Vanessa J. Castagna	Executive Vice President, Chairman and Chief Executive Officer - JCPenney Stores, Catalog and Internet	53
Robert B. Cavanaugh	Executive Vice President and Chief Financial Officer	51
Gary L. Davis	Executive Vice President, Chief Human Resources and Administration Officer	60
J. Wayne Harris	Executive Vice President, Chairman and Chief Executive Officer - Eckerd Drug Stores	63
Charles R. Lotter	Executive Vice President, Secretary and General Counsel	65
Stephen F. Raish	Executive Vice President and Chief Information Officer	52

Mr. Questrom has served as Chairman of the Board and Chief Executive Officer of the Company since September 2000. He has served as a director of J. C. Penney Corporation, Inc. since March 2002. Prior to joining the Company, Mr. Questrom served as Chairman of the Board from 1999 to January 2001, and Chief Executive Officer from 1999 to 2000, of Barney's New York, Inc., Chairman of the Board and Chief Executive Officer of Federated Department Stores, Inc. from 1990 to 1997, and President and Chief Executive Officer of Neiman Marcus Stores from 1988 to 1990. He was the senior policy maker in these positions. Prior to assuming these positions, Mr. Questrom held executive, senior management, and senior merchandise manager positions at Federated Department Stores.

Ms. Castagna has served as Executive Vice President, Chairman and Chief Executive Officer — JCPenney Stores, Catalog and Internet for J. C. Penney Company, Inc. since March 2003, and for JCP since July 2002. Ms. Castagna served as Executive Vice President, President and Chief Operating Officer of JCPenney Stores, Catalog and Internet from May 2001 to March 2003, and from 1999 to May 2001, Ms. Castagna served as Executive Vice President and Chief Operating Officer of JCPenney Stores, Merchandising and Catalog. Prior to joining the Company, Ms. Castagna served as Senior Vice President and General Merchandise Manager for women's and children's accessories and apparel at Wal-Mart Stores Division since 1996. Ms. Castagna's responsibilities at Wal-Mart also included product, trend, and brand development for family apparel. She joined Wal-Mart in 1994 as Senior Vice President and General Merchandising Manager for home decor, furniture, crafts and children's apparel. Prior to joining Wal-Mart, Ms. Castagna served in several senior level positions in the retailing industry, including Senior Vice President, General Merchandising Manager for women's and juniors for Marshalls stores, a division of TJX Companies, and Vice President, Merchandising — Women's at Target Stores, a division of Dayton Hudson Corporation (now known as Target Corporation).

Mr. Cavanaugh was elected Executive Vice President and Chief Financial Officer of the Company effective January 2, 2001. He was elected Senior Vice President and Chief Financial Officer of Eckerd Corporation, a subsidiary of the Company, in 1999, and served in that position through January 1, 2001. From 1996 to 1999 he served as Vice President and Treasurer of the Company. He has served as a director of Eckerd Corporation since 2001, and a director of J. C. Penney Corporation, Inc. since March 2002.

Mr. Davis has served as Executive Vice President, Chief Human Resources and Administration Officer, since 1998 and served as Senior Vice President, Director of Human Resources and Administration from 1997 to 1998. From 1996 to 1997, he served as Senior Vice President and Director of Personnel and Administration. He was elected President of the Northwestern Region in 1992 and served in that capacity until 1996.

Mr. Harris has served as Executive Vice President, Chairman and Chief Executive Officer — Eckerd Drug Stores, since May 2001. Mr. Harris has served as Chairman of the Board and Chief Executive Officer of Eckerd Corporation, a subsidiary of the Company, since October 1, 2000. Prior to joining the Company, Mr. Harris served as Chairman of the Board and Chief Executive Officer of The Grand Union Company from 1997 to 2000, and he served as Chairman of the Board and Chief Executive Officer of Canadian Co./the Great Atlantic & Pacific Company from 1995 to 1997, and held various other executive and senior management positions with the Great Atlantic & Pacific Company, and also The Kroger Co.

Mr. Lotter was elected an Executive Vice President of the Company in 1993. He was elected Senior Vice President, General Counsel and Secretary in 1987. He has served as a director of Eckerd Corporation since 1996 and a director of J. C. Penney Corporation, Inc. since March 2002.

Mr. Raish was elected Executive Vice President and Chief Information Officer of the Company effective January 2, 2001. In 1996 he was named Director of Coordination, JCPenney Stores. He was elected Divisional Vice President in 1997. In 1998 he was elected President, Home and Leisure Division and in 1999 he was named President of the Accelerating Change Together (ACT) initiative, the Company's centralized merchandising process in department stores and catalog.

PART II

5. Market for and Dividends on Registrant's Common Equity and Related Stockholder Matters.

The Company's Common Stock is traded principally on the New York Stock Exchange, as well as on other exchanges in the United States. In addition, the Company has authorized 25 million shares of Preferred Stock, of which 554,426 shares of Series B ESOP Convertible Preferred Stock were issued and outstanding at January 25, 2003. Additional information relating to the Common Stock and Preferred Stock of the Company included under the captions "Consolidated Statements of Stockholders' Equity" (page 20), "Capital Stock" (page 31), and "Quarterly Data (unaudited)" (page 37), which appear in the Company's 2002 Annual Report to Stockholders on the pages indicated in the parenthetical references, is incorporated herein by reference and filed hereto as Exhibit 13 in response to Item 5 of Form 10-K.

6. Selected Financial Data.

Information for the fiscal years 1998-2002 included in the "Five-Year Financial Summary (Unaudited)" on page 39 of the Company's 2002 Annual Report to Stockholders is incorporated herein by reference and filed hereto as Exhibit 13 in response to Item 6 of Form 10-K.

7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The discussion and analysis included under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations," which appears in the Company's 2002 Annual Report to Stockholders, beginning on page 4 thereof, is incorporated herein by reference and filed hereto as Exhibit 13 in response to Item 7 of Form 10-K.

Forward-Looking Statements.

This Annual Report on Form 10-K, 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 that could affect the Company's results include, but are not limited to, competition, consumer demand, seasonality, economic conditions and government activity. Investors should take such risks into account when making investment decisions.

7A. Quantitative and Qualitative Disclosures About Market Risk.

The Company maintains a majority of its cash and cash equivalents in short-term financial instruments with original maturities of three months or less. Such investments are subject to interest rate risk and may have a small decline in value if interest rates increase. Since the financial instruments are of short duration, a change of 100 basis points in interest rates would not have a material effect on the Company's financial condition.

The Company's outstanding long-term debt as of January 25, 2003, is at fixed interest rates and would not be affected by interest rate changes. Future borrowings under the Company's multi-year revolving credit facility, to the extent that fluctuating rate loans were used, would be affected by interest rate changes. As of January 25, 2003, no cash borrowings were outstanding under the facility, and approximately $206 million in letters of credit were supported by this facility. The Company does not believe that a change of 100 basis points in interest rates would have a material effect on the Company's financial condition.

See the discussion and analysis under "Fair Value of Financial Instruments" and "Short-Term Debt" which appear in the Company's 2002 Annual Report to Stockholders on pages 29 and 30, respectively, and which are incorporated herein by reference and filed hereto as Exhibit 13 in response to Item 7A of Form 10-K.

8. Financial Statements and Supplementary Data.

The Consolidated Balance Sheets of J. C. Penney Company, Inc. and subsidiaries as of January 25, 2003, and January 26, 2002, and the related Consolidated Statements of Operations, Stockholders' Equity and Cash Flows for each of the years in the three-year period ended January 25, 2003, appearing on pages 18 through 21 of the Company's 2002 Annual Report to Stockholders, together with the Independent Auditors' Report of KPMG LLP, independent certified public accountants, appearing on page 17 of the Company's 2002 Annual Report to Stockholders, the Notes to the Consolidated Financial Statements on pages 22 through 38, and the quarterly financial highlights ("Quarterly Data (unaudited)") appearing on page 39 thereof, are incorporated by reference and filed hereto as Exhibit 13 in response to Item 8 of Form 10-K.

9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

PART III*

10. Directors and Executive Officers of the Registrant.*

11. Executive Compensation.*

12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*

Equity Compensation Plan Information

The following table provides information, as of January 25, 2003, regarding shares outstanding and available for issuance under existing stock option plans.

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation Plans approved by security holders	18,767,000	$ 30.29	13,100,000
Equity compensation plans not approved by security holders	3,500,000	$ 16.06	—
Total	22,267,000	$ 28.05	13,100,000

The J. C. Penney Company, Inc. 2000 New Associate Equity Plan (the "2000 Plan") was adopted by the JCP's Board of Directors in July 2000, as a limited plan designed to create an equity pool to be issued to non-associates as an inducement to their entering into employment contracts with the Company. A total of 5,500,000 shares were authorized for issuance under the 2000 Plan; only one option issuance, of options to purchase 3,500,000 shares, was made pursuant to the 2000 Plan. The 2000 Plan was in effect from September 12, 2000, until June 1, 2001, when the J. C. Penney Company, Inc. 2001 Equity Compensation Plan, which received stockholder approval, took effect. Pursuant to the 2000 Plan, options for 3,500,000 shares remain issued, outstanding and unexpired. The last of these option grants will expire on September 12, 2010.

13. Certain Relationships and Related Transactions.*

* Pursuant to General Instruction G to Form 10-K, the information called for by Items 10, with respect to directors of the Company (to the extent not set forth in Part I hereof), 11, 12 (with the exception of Company equity compensation plan information which is described in Item 12 above), and 13 is incorporated by reference to the Company's 2003 Proxy Statement, which involves the election of directors, the final copy of which the Company filed with the Securities and Exchange Commission, pursuant to Regulation 14A, on April 10, 2003.

14. Controls and Procedures.

(a) Based on their evaluation of the Company's disclosure controls and procedures (as defined in Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934 (the "Exchange Act")) as of a date within 90 days of the filing date of this Annual Report on Form 10-K, the Company's principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures are effective for the purpose of ensuring that material information required to be in this Annual Report on Form 10-K is made known to them by others on a timely basis.

(b) There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of their most recent evaluation.

PART IV

15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K.

(a) 1. All Financial Statements. See Item 8 of this Annual Report on Form 10-K for financial statements incorporated by reference to the Company's 2002 Annual Report to Stockholders.

(a) 2. Financial Statement Schedule. Schedules have been omitted as they are inapplicable or not required under the rules, or the information has been submitted in the consolidated financial statements and related financial information included in the Company's 2002 Annual Report to Stockholders incorporated herein by reference and filed hereto as Exhibit 13.

Separate financial statements are filed for J. C. Penney Funding Corporation, a wholly owned consolidated subsidiary of JCP, in its separate Annual Report on Form 10-K for the 52 weeks ended January 25, 2003, which financial statements, together with the Independent Auditors' Report of KPMG LLP thereon, are incorporated herein by reference and filed hereto as Exhibit 99(b).

(a) 3. Exhibits. See separate Exhibit Index on pages i through ix.

(b) Reports on Form 8-K during the fourth quarter of fiscal 2002. None.

(c) Each management contract or compensatory plan or arrangement required to be filed as an exhibit to this form is filed as part of the separate Exhibit Index on pages i through ix and specifically identified as such beginning on page iv.

(d) Other Financial statement Schedules. None

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

J. C. PENNEY COMPANY, INC.

(Registrant)

By:

/s/ R.B. CAVANAUGH

R. B. Cavanaugh
Executive Vice President
and Chief Financial Officer

Dated: April 10, 2003

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Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signatures	Title	Date
A. I. Questrom* A. I. Questrom	Chairman of the Board and Chief Executive Officer (principal executive officer); Director	April 10, 2003
/s/ R. B. Cavanaugh R. B. Cavanaugh	Executive Vice President and Chief Financial Officer (principal financial officer)	April 10, 2003
W. J. Alcorn* W. J. Alcorn	Senior Vice President and Controller (principal accounting officer)	April 10, 2003
M. A. Burns* M. A. Burns	Director	April 10, 2003
T. J. Engibous* T. J. Engibous	Director	April 10, 2003
K. B. Foster* K. B. Foster	Director	April 10, 2003
V. E. Jordan, Jr.* V. E. Jordan, Jr.	Director	April 10, 2003
B. Osborne	Director	April ___, 2003
J. C. Pfeiffer* J. C. Pfeiffer	Director	April 10, 2003
A. W. Richards* A. W. Richards	Director	April 10, 2003
L. H. Roberts* L. H. Roberts	Director	April 10, 2003
C. S. Sanford, Jr.* C. S. Sanford, Jr.	Director	April 10, 2003
R. G. Turner* R. G. Turner	Director	April 10, 2003

*By: /s/ R. B. Cavanaugh

R. B. Cavanaugh
Attorney-in-fact

CERTIFICATIONS

I, Allen I. Questrom, Chairman and Chief Executive Officer, certify that:

1. I have reviewed this annual report on Form 10-K of J. C. Penney Company, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

April 10, 2003

/s/ Allen I. Questrom

Allen I. Questrom
Chairman and Chief Executive Officer

CERTIFICATIONS

I, Robert B. Cavanaugh, Executive Vice President and Chief Financial Officer, certify that:

1. I have reviewed this annual report on Form 10-K of J. C. Penney Company, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

   c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

April 10, 2003

/s/ Robert B. Cavanaugh

Robert B. Cavanaugh
Executive Vice President and
Chief Financial Officer

EXHIBIT INDEX

Exhibit

2. **(i)** **Plan of Acquisition, reorganization, arrangement, liquidation or succession** Agreement and Plan of Merger dated as of January 23, 2002, between JCP and Company (incorporated by reference to Exhibit 2 to Company's Form 8-K dated January 27, 2002, SEC File No. 001-15274).

3. **(i)** **Articles of Incorporation** Restated Certificate of Incorporation of the Company, (incorporated by reference to Exhibit 3(i) to Company's Form 8-K dated January 27, 2002, (SEC File No. 001-15274).

   (ii) **Bylaws** Bylaws of Company, as amended to January 27, 2002 (incorporated by reference to Exhibit 3(ii) to Company's Form 8-K dated January 27, 2002, SEC File No. 001-15274).

4. **Instruments defining the rights of security holders, including indentures**

   (a) Indenture, dated as of October 1, 1982, between JCP and U.S. Bank National Association, Trustee (formerly First Trust of California, National Association, as Successor Trustee to Bank of America National Trust and Savings Association) (incorporated by reference to Exhibit 4(a) to Company's Annual Report on Form 10-K for the 52 week period ended January 29, 1994*).

   (b) First Supplemental Indenture, dated as of March 15, 1983,between JCP and U.S. Bank National Association, Trustee (formerly First Trust of California, National Association, as Successor Trustee to Bank of America National Trust and Savings Association)(incorporated by reference to Exhibit 4(b) to Company's Annual Report on Form 10-K for the 52 week period ended January 29, 1994*).

   (c) Second Supplemental Indenture, dated as of May 1, 1984, between JCP and U.S. Bank National Association, Trustee (formerly First Trust of California, National Association, as Successor Trustee to Bank of America National Trust and Savings Association) (incorporated by reference to Exhibit 4(c) to Company's Annual Report on Form 10-K for the 52 week period ended January 29, 1994*).

   (d) Third Supplemental Indenture, dated as of March 7, 1986, between JCP and U.S. Bank National Association, Trustee (formerly First Trust of California, National Association, as Successor Trustee to Bank of America National Trust and Savings Association) (incorporated by reference to Exhibit 4(d) to Company's Registration Statement on Form S-3, SEC File No. 33-3882).

(e) Fourth Supplemental Indenture, dated as of June 7, 1991, between JCP and U.S. Bank National Association, Trustee (formerly First Trust of California, National Association, as Successor Trustee to Bank of America National Trust and Savings Association) (incorporated by reference to Exhibit 4(e) to Registrant's Registration Statement on Form S-3, SEC File No. 33-41186).

(f) Indenture, dated as of April 1, 1994, between JCP and U.S. Bank National Association, Trustee (formerly First Trust of California, National Association, as Successor Trustee to Bank of America National Trust and Savings Association) (incorporated by reference to Exhibit 4(a) to Company's Registration Statement on Form S-3, SEC File No. 33-53275).

(g) Amendment and Restatement Agreement to Five-Year Revolving Credit Agreement, dated as of November 21, 1997, among JCP, J. C. Penney Funding Corporation, the Lenders party thereto, Morgan Guaranty Trust Company of New York, as Agent, and Bank of America National Trust and Savings Association, Bankers Trust Company, The Chase Manhattan Bank, Citibank, N.A., Credit Suisse First Boston and NationsBank of Texas, N.A., as Managing Agents (incorporated by reference to Exhibit 4(g) to J. C. Penney Funding Corporation's Annual Report on Form 10-K for the 53 weeks ended January 31, 1998, SEC File No. 1-4947-1).

(h) Guaranty dated as of February 17, 1997, executed by JCP, (incorporated by reference to Exhibit 4(c) to J. C. Penney Funding Corporation's Annual Report on Form 10-K for the 52 weeks ended January 25, 1997, SEC File No. 1-4947-1).

(i) Indenture, dated as of October 15, 2001, between JCP and The Bank of New York, Trustee (incorporated by reference to Exhibit 4(a) to Company's Registration Statement on Form S-3 filed November 29, 2001, SEC File No. 333-74122).

(j) Rights Agreement, dated as of January 23, 2002, by and between Company and Mellon Investor Services LLC as Rights Agent (incorporated by reference to Exhibit 4 to Company's Form 8-K dated January 27, 2002, SEC File No. 001-15274).

(k) Fifth Supplemental Indenture, dated as of January 27, 2002, among the Company, JCP and U.S. Bank National Association, Trustee (formerly First Trust of California, National Association, as Successor Trustee to Bank of America National Trust and Savings Association) to Indenture dated as of October 1, 1982 (incorporated by reference to Exhibit 4(o) to Company's Annual Report on Form 10-K for the 52 weeks ended January 26, 2002, SEC File No. 1-15274).

(l) First Supplemental Indenture dated as of January 27, 2002, among the Company, JCP and U.S. Bank National Association, Trustee (formerly Bank of America National Trust and Savings Association) to Indenture dated as of April 1, 1994 (incorporated by reference to Exhibit 4(p) to Company's Annual Report on Form 10-K for the 52 weeks ended January 26, 2002, SEC File No. 1-15274).

(m) First Supplemental Indenture dated as of January 27, 2002, among the Company, JCP and The Bank of New York, Trustee to Indenture dated as of October 15, 2001 (incorporated by reference to Exhibit 4(a)(ii) to Company's Registration Statement on Form S-3, SEC File No. 333-74122).

(n) First Supplemental Indenture dated as of January 27, 2002, among the Company, JCP and JP Morgan Chase Bank, Trustee (formerly First Trust of California, National Association, as Successor Trustee to Bank of America National Trust and Savings Association) to Indenture dated as of May 1, 1981 (incorporated by reference to Exhibit 4(r) to Company's Annual Report on Form 10-K for the 52 weeks ended January 26, 2002, SEC File No. 1-15274).

(o) Registration Rights Agreement for Convertible Subordinated Notes dated October 15, 2001, between JCP and Initial Purchasers (incorporated by reference to Exhibit 4(s) to Company's Annual Report on Form 10-K for the 52 weeks ended January 26, 2002, SEC File No. 1-15274).

(p) Credit Agreement dated as of May 31, 2002, among the Company, JCP, J.C. Penney Purchasing Corporation, the Lenders party thereto, JP Morgan Chase Bank, as Administrative Agent, and Wachovia Bank, National Association, as Letter of Credit Agent (incorporated by reference to Exhibit 10.1 to Company's Form 8-K dated June 5, 2002, SEC File No. 1-15274).

(q) Second Supplemental Indenture dated as of July 26, 2002, among the Company, JCP and U.S. Bank National Association, Trustee (formerly Bank of America National Trust and Savings Institution) to Indenture dated as of April 1, 1994 (incorporated by reference to Exhibit 4 to Company's Quarterly Report on Form 10-Q for the 13 and 26 week period ended July 26, 2002, SEC File No. 1-15274).

Other instruments evidencing long-term debt have not been filed as exhibits hereto because none of the debt authorized under any such instrument exceeds 10 percent of the total assets of the Registrant and its consolidated subsidiaries. The Registrant agrees to furnish a copy of any of its long-term debt instruments to the Securities and Exchange Commission upon request.

10. Material contracts

(i) Other than Compensatory Plans or Arrangements

(a) Loan Agreement dated as of January 28, 1986 between JCP and J. C. Penney Funding Corporation (incorporated by reference to Exhibit 4 to Company's Current Report on Form 8-K, Date of Report — January 28, 1986*).

(b) Amendment No. 1 to Loan Agreement dated as of January 28, 1986 between JCP and J. C. Penney Funding Corporation (incorporated by reference to Exhibit 1 to Company's Current Report on Form 8-K, Date of Report — December 31, 1986*).

(c) Amendment No. 2 to Loan Agreement dated as of January 28, 1986 between JCP and J. C. Penney Funding Corporation (incorporated by reference to Exhibit 10(i)(e) to Company's Annual Report on Form 10-K for the 52 weeks ended January 25, 1997*).

(d) Agreement dated as of September 30, 2000, between JCP and J. E. Oesterreicher (incorporated by reference to Exhibit 10(c) to Company's Quarterly Report on Form 10-Q for the 13 and 39 week periods ended October 28, 2000*).

(ii) Compensatory Plans or Arrangements required to be filed as Exhibits to this Report pursuant to Item 14 (c) of this Report

(a) J. C. Penney Company, Inc. Directors' Equity Program Tandem Restricted Stock Award/Stock Option Plan (incorporated by reference to Exhibit 10(k) to Company's Annual Report on Form 10-K for the 52 week period ended January 28, 1989*).

(b) J. C. Penney Company, Inc. 1989 Equity Compensation Plan (incorporated by reference to Exhibit A to Company's definitive Proxy Statement for its Annual Meeting of Stockholders held on May 19, 1989*).

(c) February 1995 Amendment to J. C. Penney Company, Inc. 1989 Equity Compensation Plan (incorporated by reference to Exhibit 10(ii)(k) to Company's Annual Report on Form 10-K for the 52 week period ended January 28, 1995*).

(d) February 1996 Amendment to J. C. Penney Company, Inc. 1989 Equity Compensation Plan, as amended (incorporated by reference to Exhibit 10(ii)(k) to Company's Annual Report on Form 10-K for the 52 week period ended January 27, 1996*).

(e) J. C. Penney Company, Inc. 1993 Equity Compensation Plan (incorporated by reference to Exhibit A to Company's definitive Proxy Statement for its Annual Meeting of Stockholders held on May 21, 1993*).

(f) February 1995 Amendment to J. C. Penney Company, Inc. 1993 Equity Compensation Plan (incorporated by reference to Exhibit 10(ii)(l) to Company's Annual Report on Form 10-K for the 52 week period ended January 28, 1995*).

(g) November 1995 Amendment to J. C. Penney Company, Inc. 1993 Equity Compensation Plan, as amended (incorporated by reference to Exhibit 10(ii)(n) to Company's Annual Report on Form 10-K for the 52 week period ended January 27, 1996*).

(h) J. C. Penney Company, Inc. 1993 Non-Associate Directors' Equity Plan (incorporated by reference to Exhibit B to Company's definitive Proxy Statement for its Annual Meeting of Stockholders held on May 21, 1993*).

(i) February 1995 Amendment to J. C. Penney Company, Inc. 0993 Non-Associate Directors' Equity Plan (incorporated by reference to Exhibit 10(ii)(m) to Company's Annual Report on Form 10-K for the 52 week period ended January 28, 1995*).

(j) J. C. Penney Company, Inc. Deferred Compensation Plan as amended through July 14, 1993 (incorporated by reference to Exhibit 10(a) to Company's Quarterly Report on Form 10-Q for the 13 and 26 week periods ended July 31, 1993*).

(k) J. C. Penney Company, Inc. Deferred Compensation Plan for Directors, as amended effective April 9, 1997 (incorporated by reference to Exhibit 10(a) to Company's Quarterly Report on Form 10-Q for the 13 week period ended April 26, 1997*).

(l) Directors' Charitable Award Program (incorporated by reference to Exhibit 10(r) to Company's Annual Report on Form 10-K for the 52 week period ended January 27, 1990*).

(m) Form of Indemnification Trust Agreement between Company and The Chase Manhattan Bank (formerly Chemical Bank) dated as of July 30, 1986, as amended (incorporated by reference to Exhibit 1 to Exhibit B to Company's definitive Proxy Statement for its Annual Meeting of Stockholders held on May 29, 1987*).

(n) J. C. Penney Company, Inc. 1997 Equity Compensation Plan (incorporated by reference to Exhibit A to Company's definitive proxy statement for its Annual Meeting of Stockholders held on May 16, 1997*).

(o) Employment Agreement dated as of August 1, 1999 between the Company and V. J. Castagna (incorporated by reference to Exhibit 10(b) to Company's Quarterly Report on Form 10-Q for 13 and 39 weeks ended October 30, 1999*).

(p) Employment Agreement dated as of July 21, 2000 between the Company and A. I. Questrom (incorporated by reference to Exhibit 10 to Company's Current Report on Form 8-K dated July 21, 2000*).

(q) J. C. Penney Company, Inc. 2000 New Associate Equity Plan (incorporated by reference to Exhibit 10(a) to Company's Quarterly Report on Form 10-Q for the 13 period ended April 28, 2000*).

(r) Employment Agreement dated as of September 25, 2000 between the Company and J. W. Harris (incorporated by reference to Exhibit 10(b) to Company's Quarterly Report on Form 10-Q for the 13 and 39 week periods ended April 28, 2001*).

(s) Amendment No. 1, dated as of May 19, 2000, to the Employment Agreement dated as of August 1, 1999, between JCP and V. J. Castagna (incorporated by reference to Exhibit 10(ii)(av) to Company's Annual Report on Form 10-K for the 52 week period ended January 27, 2001*).

(t) Incentive Compensation Agreements dated as of January 2, 2001, between the Company and G. L. Davis, C. R. Lotter, and M. W. Taxter (incorporated by reference to Exhibit 10(ii)(aw) to Company's Annual Report on Form 10-K for the 52 week period ended January 27, 2001*).

(u) J. C. Penney Company, Inc. 2001 Equity Compensation Plan (incorporated by reference to Exhibit B to Company's definitive proxy statement for its Annual Meeting of Stockholders held on May 18, 2001*).

(v) J. C. Penney Corporation, Inc. 1999 Separation Allowance Program for Profit-Sharing Management Associates, effective July 14, 1999, as amended through January 25, 2002 (incorporated by reference to Exhibit 10(ii)(w) to Company's Annual Report on Form 10-K for the 52 weeks ended January 26, 2002, SEC File No. 1-15274).

(w) J. C. Penney Corporation, Inc. 1995 Benefit Restoration Plan, as amended through January 27, 2002 (incorporated by reference to Exhibit 10(ii)(y) to Company's Annual Report on Form 10-K for the 52 weeks ended January 26, 2002, SEC File No. 1-15274).

(x) Supplemental Retirement Program for Management Profit-Sharing Associates of J. C. Penney Corporation, Inc., as amended through January 27, 2002 (incorporated by reference to Exhibit 10(ii)(z) to Company's Annual Report on Form 10-K for the 52 weeks ended January 26, 2002, SEC File No. 1-15274).

(y) J. C. Penney Corporation, Inc. Mirror Savings Plans I, II and III, as amended through January 27, 2002 (incorporated by reference to Exhibit 10(ii)(aa) to Company's Annual Report on Form 10-K for the 52 weeks ended January 26, 2002, SEC File No. 1-15274).

(z) Form of Indemnification Agreement between Company, J. C. Penney Corporation, Inc. and individual Indemnities, as amended through January 27, 2002 (incorporated by reference to Exhibit 10(ii)(ab) to Company's Annual Report on Form 10-K for the 52 weeks ended January 26, 2002, SEC File No. 1-15274).

(aa) J. C. Penney Corporation, Inc. 1989 Management Incentive Compensation Program, as amended through February 20, 2002 (incorporated by reference to Exhibit 10(ii)(ac) to Company's Annual Report on Form 10-K for the 52 weeks ended January 26, 2002, SEC File No. 1-15274).

(ab) June 1, 2002, Amendment to Supplemental Retirement Program for Management Profit-Sharing Associates of JCP (incorporated by reference to Exhibit 10(a) to Company's Quarterly Report on Form 10-Q for the 13 and 26 week period ended July 26, 2002, SEC File No. 1-15274).

(ac) June 1, 2002, Amendment to JCP Separation Allowance Program for Profit-Sharing Management Associates (incorporated by reference to Exhibit 10(b) to Company's Quarterly Report on Form 10-Q for the 13 and 26 week period ended July 26, 2002, SEC File No. 1-15274).

(ad) May 31, 2002, Amendment to JCP Supplemental Term Life Insurance Plan for Management Profit-Sharing Associates (incorporated by reference to Exhibit 10(c) to Company's Quarterly Report on Form 10-Q for the 13 and 26 week period ended July 26, 2002, SEC File No. 1-15274).

(ae) June 1, 2002, Amendment to JCP Benefit Restoration Plan (incorporated by reference to Exhibit 10(d) to Company's Quarterly Report on Form 10-Q for the 13 and 26 week period ended July 26, 2002, SEC File No. 1-15274).

(af) June 1, 2002, Amendment to JCP Management Incentive Compensation Plan (incorporated by reference to Exhibit 10(e) to Company's Quarterly Report on Form 10-Q for the 13 and 26 week period ended July 26, 2002, SEC File No. 1-15274).

(ag) June 1, 2002, Amendments to JCP Mirror Savings Plans I, II and III (incorporated by reference to Exhibit 10(f) to Company's Quarterly Report on Form 10-Q for the 13 and 26 week period ended July 26, 2002, SEC File No. 1- 15274).

(ah) Employment Agreement dated as of June 1, 2002, between JCP and R.B. Cavanaugh (incorporated by reference to Exhibit 10(g) to Company's Quarterly Report on Form 10-Q for the 13 and 26 week period ended July 26, 2002, SEC File No. 1-15274).

(ai) Employment Agreement dated as of June 1, 2002, between JCP and S.F. Raish (incorporated by reference to Exhibit 10(h) to Company's Quarterly Report on Form 10-Q for the 13 and 26 week period ended July 26, 2002, SEC File No. 1-15274).

(aj) Eckerd Corporation Key Management Bonus Program dated February 1, 1999, as amended and restated through February 1, 2002 (incorporated by reference to Exhibit 10(i) to Company's Quarterly Report on Form 10-Q for the 13 and 26 week period ended July 26, 2002, SEC File No. 1-15274).

(ak) March 21, 2002, Amended, restated and renamed Eckerd Corporation Supplemental Retirement Program (effective March 21, 2002).

(al) May 31, 2002, Eckerd Corporation Executive Supplemental Plan (effective March 21, 2002).

(am) J. C. Penney Company, Inc. Supplemental Term Life Insurance Plan for Management Profit-Sharing Associates, as restated effective January 1, 2003.

* SEC file number 1-777

11. Statement regarding computation of per share earnings

See calculation of earnings per share on pages 27 and 28 in the Consolidated Statement of Operations in the Company's 2002 Annual Report to Stockholders.

12. Statement regarding computation of ratios

(a) Computation of Ratios of Available Income to Combined Fixed Charges and Preferred Stock Dividend Requirement.

(b) Computation of Ratios of Available Income to Fixed Charges.

13. Annual report to security holders

Excerpt from Company's 2002 Annual Report to Stockholders.

18. Independent Auditors' Preferability Letter

21. Subsidiaries of the registrant

List of certain subsidiaries of J. C. Penney Company, Inc. as of April 1, 2003.

23. Independent Auditors' Consent

24. Power of Attorney

99. Additional Exhibits

(a) Item 1 of J. C. Penney Funding Corporation Annual Report on Form 10-K for the 52 weeks ended January 25, 2003 (incorporated by reference to J. C. Penney Funding Corporation Annual Report on Form 10-K for the 52 weeks ended January 25, 2003, filed concurrently herewith, SEC File No. 1-4947-1).

(b) Excerpt from J. C. Penney Funding Corporation Annual Report on Form 10-K for the 52 weeks ended January 25, 2003 (incorporated by reference to J. C. Penney Funding Corporation Annual Report on Form 10-K for the 52 weeks ended January 25, 2003, filed concurrently herewith, SEC File No. 1-4947-1).

(c) Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(d) Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

EXHIBIT 10(ii)(ak)

ECKERD CORPORATION

SUPPLEMENTAL RETIREMENT PROGRAM

ADOPTED EFFECTIVE FEBRUARY 25, 1993
BY THRIFT DRUG, INC.

AMENDED AND RESTATED EFFECTIVE DECEMBER 1, 1995
BY THRIFT DRUG, INC.

AMENDED AND RESTATED EFFECTIVE MARCH 21, 2002
BY ECKERD CORPORATION

==

DOCUMENT HISTORY

This document is the amended and restated plan adopted
by the Thrift Drug, Inc. board of directors effective
December 1, 1995, as amended and restated effective
March 21, 2002 by the board of directors of Eckerd Coporation.

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ECKERD CORPORATION
SUPPLEMENTAL RETIREMENT PROGRAM

ADOPTED EFFECTIVE FEBRUARY 25, 1993

AMENDED AND RESTATED EFFECTIVE DECEMBER 1, 1995

AMENDED AND RESTATED EFFECTIVE MARCH 21, 2002

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ECKERD CORPORATION
SUPPLEMENTAL RETIREMENT PROGRAM

ADOPTED EFFECTIVE JANUARY 25, 1993
BY THRIFT DRUG, INC.

AMENDED AND RESTATED EFFECTIVE DECEMBER 1, 1995
BY THRIFT DRUG, INC.

AMENDED AND RESTATED EFFECTIVE MARCH 21, 2002
BY ECKERD CORPORATION

ARTICLE I. INTRODUCTION

The Eckerd Corporation Supplemental Retirement Program (formerly known as Supplemental Retirement Program for Management Profit-Sharing Associates of Thrift Drug, Inc.) is a plan maintained primarily for the purpose of providing deferred compensation for a select group of management or highly compensated associates.

This document amends and restates the Plan, effective March 21, 2002, to allow Eckerd Corporation to adopt and continue the Program as the successor to Thrift Drug, Inc.

With respect to any Eligible Management Associate who terminated employment prior to March 21, 2002, eligibility for benefits shall be determined pursuant to the terms and conditions of the Supplemental Retirement Program for Management Profit-Sharing Associates of Thrift Drug, Inc. in effect prior to March 21, 2002.

ARTICLE II. DEFINITIONS

For the purpose of this Plan the following terms shall have the following meanings:

ASSOCIATE: Any person who is classified as an associate and employed by a Controlled Group Member if the relationship between a Controlled Group Member and such person would constitute the legal relationship of employer and employee.

AVERAGE FINAL COMPENSATION: The average annual Compensation of an Eligible Management Associate with respect to the three calendar years of his highest Compensation determined by taking into account (a) the Compensation attributable to the Eligible Management Associate's Credited Service in the calendar year in which occurs such Early Retirement Date, Traditional Retirement Date, or Delayed Retirement Date, as the case may be, and (b) the Compensation during either of the following, whichever is appropriate:

(i) the 9 full calendar years of Final Service immediately preceding the calendar year in which occurs the Eligible Management Associate's Early Retirement Date, Traditional Retirement Date, or Delayed Retirement Date, as the case may be; or

(ii) if such Eligible Management Associate has less than 9 full calendar years of Final Service, the entire number of full calendar years of such Final Service immediately preceding the calendar year in which occurs the Eligible Management Associate's Early Retirement Date, Traditional Retirement Date, or Delayed Retirement Date, as the case may be.

If such Eligible Management Associate has less than three full calendar years of Final Service prior to the calendar year in which occurs his Early Retirement Date, Traditional Retirement Date, or Delayed Retirement Date, Average Final Compensation shall mean the aggregate Compensation earned with respect to the Eligible Management Associate's Final Service immediately preceding the calendar year in which occurs his Early Retirement Date, Traditional Retirement Date or Delayed Retirement Date, divided by the total number of full months of such Final Service, multiplied by 12.

BENEFICIARY: The one or more persons or entities entitled to receive a distribution of the Eligible Management Associate's interest in the Plan in the event of his death.

BENEFITS ADMINISTRATION COMMITTEE: The committee appointed by the Board of Directors to administer the Plan.

BENEFIT COMMENCEMENT DATE: The date upon which payment of a Pension Plan Participant's retirement benefit is scheduled to begin pursuant to the terms of the Pension Plan.

BENEFIT RESTORATION PLAN: J. C. Penney Corporation, Inc. Benefit Restoration Plan, as amended from time to time.

BOARD OF DIRECTORS: Board of Directors of the Company.

CODE: The Internal Revenue Code of 1986, as amended from time to time. References to "regulations" are to regulations published by the Secretary of the Treasury under applicable provisions of the Code, unless otherwise expressly indicated.

COMPANY: Eckerd Corporation and any successor corporation that adopts the Plan.

COMPANY ACCOUNT(S): The account(s) of that name and any successor account(s) and/or fund(s) established and maintained pursuant to the Mirror Savings Plans and the Savings Plan in which are reflected all employer contributions allocated to an Eligible Management Associate together with all assets attributable thereto.

COMPENSATION: The wages paid to an Associate by the Company, or, for the purpose of determining Average Final Compensation only, by a Controlled Group Member, as the term wages is defined in Code Section 3401(a), determined without regard to any reduction for workers' compensation and state disability insurance reimbursements, and all other compensation payments for which the Company or other Controlled Group Member is required to furnish the Associate a written statement under Code Sections 6041(d), 6051(a)(3) and 6052, reduced by the following items:

(a) all expatriate and foreign service allowances, including without limitation cost-of-living adjustments;

(b) tax gross-up payments;

(c) noncash prizes;

(d) income attributable to employer-provided group term life insurance;

(e) income recognized with respect to stock options and stock awards;

(f) tax equalizations payments;

(g) taxable and nontaxable relocation payments;

(h) payments of deferred amounts under the Company's long term incentive plans or any other nonqualified plan of deferred compensation;

(i) [Reserved]

(j) severance pay, outplacement pay, and/or critical pay;

(k) third-party disability payments (State of New York);

(l) home sale bonus payments;

(m) mortgage interest assistance payments;

(n) senior management perquisites, tax preparation fees, and allowances for travel from Alaska and Hawaii;

(o) legal settlements constituting back pay or other wage payments;

(p) non-Associate travel reimbursements;

(q) clothing allowance payments; and

(r) payments made pursuant to a non-compete agreement.

In addition, Compensation includes any contributions made by the Company or other Controlled Group Member on behalf of an Associate pursuant to a deferral election under any employee benefit plan containing a cash or deferred arrangement under Code Section 401(k), and any amounts that would have been received as cash but for an election to receive benefits under a cafeteria plan meeting the requirements of Code Section 125, and amounts deferred by an Associate under the Mirror Savings Plans.

An Associate who is in the service of the Armed Forces of the United States during any period in which his reemployment rights are guaranteed by law will be considered to have received the same rate of Compensation during his absence he was receiving immediately prior to his absence, provided he returns to employment with a Controlled Group Member within the time such rights are guaranteed.

CONTROLLED GROUP: The Company and all other corporations, trades and businesses, the employees of which, together with employees of the Company, are required by the first sentence of subsection (b) , by subsection (c) , by subsection (m) , or by subsection (o) of Code section 414 to be treated as if they were employed by a single employer.

CONTROLLED GROUP MEMBER: Each corporation or unincorporated trade or business that is or was a member of a Controlled Group, but only during such period as it is or was such a member.

CREDITED SERVICE: The years of credited service, up to a total maximum of 40 years, credited to an Eligible Management Associate (a) under the terms of the Pension Plan, determined without regard to any yearly limitation imposed by the terms of the Pension Plan (excluding any periods of Disability Service), (b) under Paragraph (1) of Article VIII, and (c) years of Service with the Company or other Controlled Group Member after he ceases earning credited service under the terms of the Pension Plan.

DELAYED RETIREMENT DATE: The first day of the month immediately following the date on which an Eligible Management Associate Separates from Service after having attained Traditional Retirement Age.

DISABILITY SERVICE: The years of disability service credited to an Eligible Management Associate under the terms of the Pension Plan.

EARLY RETIREMENT AGE: The first date on which an Eligible Management Associate has attained age 55 and has completed at least 15 years of Service.

EARLY RETIREMENT DATE: The first day of the month immediately following the date on which an Eligible Management Associate Separates from Service after having attained Early Retirement Age but before attainment of such Eligible Management Associate's Traditional Retirement Age.

ELIGIBLE MANAGEMENT ASSOCIATE: An Associate who is employed by the Company and who is classified under the Company's personnel policy as a management associate in an Eckerd Position Level 9 or higher on his Separation from Service after attainment of Early Retirement Age or Traditional Retirement Age and

(a) who is listed in Appendix I to the Plan; or

(b) who transfers employment to the Company after March 21, 2002 and who on December 31, 1995 was classified as an eligible management associate under the terms of the Supplemental Retirement Program for Management Profit-Sharing Associates of J. C. Penney Corporation, Inc.; or

(c) who is employed by the Company after March 21, 2002 and who on December 31, 1995 was classified as an eligible management associate under the terms of the Supplemental Retirement Program for Management Profit-Sharing Associates of Thrift Drug, Inc.

ERISA: Employee Retirement Income Security Act of 1974, as amended from time to time.

ESTIMATED SOCIAL SECURITY BENEFIT: (1) For purposes of the benefit provided in Paragraph (3) of Article IV the monthly benefit the Eligible Management Associate would receive under the Social Security Act at age 62 based on the following assumptions:

(i) All compensation earned (a) prior to the later of 1951 or the year the Eligible Management Associate attains age 22 or (b) in the year in which the Eligible Management Associate Separates from Service if such separation occurs prior to the last day of the calendar year will be disregarded;

(ii) Earnings for the years prior to the Eligible Management Associate's employment with the Participating Employer are in the same proportion to the Taxable Wage Base in effect for the prior years as that which the first full year of earnings bore to the Taxable Wage Base in existence at that time;

(iii) Earnings are averaged over a number of full calendar years as determined by the following:

<Table>
<Caption>

<S>	Year of Birth <C>	Number of Full Calendar Years <C>
	1925	31
	1926	32
	1927	33
	1928	34
	After 1928	35

</Table>

If the Eligible Management Associate's total calendar years of earnings determined under clauses (i) and (ii) above exceed the number of full years of earnings that are to be averaged based on the year of such Eligible Management Associate's birth, one or more of the Eligible Management Associate's lowest years of earnings will be disregarded until his total years of earnings equals the number of full years of earnings that are to be averaged based on the year of such Eligible Management Associate's birth.

(iv) Social Security indexing factors used are those actually used by the Social Security Administration in determining the Eligible Management Associate's Social Security benefit, and if those factors are not available, the latest published factors will be used.

(2) For Eligible Management Associates who reach Traditional Retirement Age on or prior to August 1, 2000, for purposes of clause (iii) of Subparagraph (b) of

Paragraph (1) of Article IV the lesser of the benefit determined under (A) or (B) below:

(A) The product of (a) multiplied by (b) with (a) being the monthly benefit the Eligible Management Associate would receive under the Social Security Act at age 62, or if retirement is later than age 62, the benefit payable at actual retirement, based on the following assumptions:

(i) The benefit is based solely on the compensation earned during the Eligible Management Associate's calendar years of service and disregarding the Eligible Management Associate's last calendar year of service if less than a full year and disregarding completely all other years;

(ii) Earnings are averaged over the number of years of actual credited service, as defined in the Pension Plan;

(iii) Social Security indexing factors used are those actually used by the Social Security Administration in determining the Eligible Management Associate's Social Security benefit, and if those factors are not available, the latest published factors will be used;

and (b) being a fraction, not exceeding one, the numerator of which is the Eligible Management Associate's years of credited service, as defined by the Pension Plan and the denominator of which is 30.

(B) The monthly benefit the Eligible Management Associate would receive under the Social Security Act at age 62, or if retirement is later than age 62, the benefit payable at actual retirement, based on the following assumptions:

(i) All compensation earned (a) prior to the later of 1951 or the year the Eligible Management Associate attains age 22 or (b) in the year in which the Eligible Management Associate Separates from Service if such separation occurs prior to the last day of the calendar year will be disregarded;

(ii) The Eligible Management Associate earned no compensation for calendar years before the Eligible Management Associate was employed by the Participating Employer, which years will be included in the calculation as years of zero earnings;

(iii) Earnings are averaged over a number of full calendar years as determined by the following:

<Table>
<Caption>

Year of Birth	Number of Full Calendar Years
<S>	<C>
1925	31
1926	32
1927	33
1928	34
After 1928	35

</Table>

If the Eligible Management Associate's total calendar years of earnings determined under clauses (i) and (ii) above exceed the number of full years of earnings that are to be averaged based on year of such Eligible Management Associate's birth, one or more of the Eligible Management Associate's lowest years of earnings will be disregarded until his total years of earnings equals the number of full years of earnings that are to be averaged based on the year of such Eligible Management Associate's birth.

(iv) Social Security indexing factors used are those actually used by the Social Security Administration in determining the Eligible Management Associate's Social Security benefit, and, if those factors are not available, the latest published factors will be used.

For Eligible Management Associates who reach Traditional Retirement Age after August 1, 2000, for purposes of clause (iii) of Subparagraph (b) of Paragraph (1) of Article IV, Estimated Social Security Benefit shall be determined under (B) above.

FINAL SERVICE: An Eligible Management Associate's years of credited service under the terms of the Pension Plan plus his years of Service with the Company or other Controlled Group Member after he ceases earning credited service under the terms of the Pension Plan. Calendar years that include a period of Disability Service will not be included in the determination of Final Service. Calendar years of Service or of Credited Service that are interrupted by a Separation from Service or by one or more years in which the Eligible Management Associate did not receive Compensation for the entire year will be considered to be consecutive for purposes of determining consecutive years of Final Service.

HUMAN RESOURCES AND INVESTMENT COMMITTEE: The Human Resources and Investment Committee appointed by the Board of Directors.

INTEREST INCOME ACCOUNT(s): The account(s) of that name and any successor account(s) and/or fund(s) established and maintained pursuant to the Savings and Profit-Sharing Retirement Plan, the Savings, Profit-Sharing and Stock Ownership Plan, and the Savings Plan.

MATCHED DEPOSITS: An Eligible Management Associate's deposits, not in excess of 6% of his compensation (as defined in the Savings and Profit-Sharing

Retirement Plan, the Savings, Profit-Sharing and Stock Ownership Plan and the Mirror Savings Plans), made pursuant to the Savings and Profit-Sharing Retirement Plan, the Savings, Profit-Sharing and Stock Ownership Plan, and the Mirror Savings Plans, and his deposits not in excess of 3% of his compensation (as defined in the Savings Plan) made pursuant to the Savings Plan.

MIRROR SAVINGS PLANS: The J. C. Penney Corporation, Inc. Mirror Savings Plan I, the J. C. Penney Corporation, Inc. Mirror Savings Plan II, and the J. C. Penney Corporation, Inc. Mirror Savings Plan III.

OFFICER: An Associate who is an officer of the Company or a subsidiary of the Company as determined by the Chief Executive Officer of the Company, or his successor by position or title.

PENNEY STOCK (COMPANY) ACCOUNT: The account(s) of that name and any successor account(s) and/or fund(s) established and maintained pursuant to the Savings and Profit-Sharing Retirement Plan, the Savings, Profit-Sharing and Stock Ownership Plan, and the Savings Plan.

PENSION PLAN: J. C. Penney Corporation, Inc. Pension Plan, as amended from time to time.

PENSION PLAN PARTICIPANT: An Associate or former Associate who is treated as a participant under the Pension Plan.

PLAN: Eckerd Corporation Supplemental Retirement Program, as amended from time to time, and formerly known prior to March 21, 2002 as the Supplemental Retirement Program for Management Profit-Sharing Associates of Thrift Drug, Inc.

SAVINGS PLAN: Eckerd Corporation 401(k) Savings Plan, as amended from time to time.

SAVINGS AND PROFIT-SHARING RETIREMENT PLAN: J. C. Penney Company, Inc. Savings and Profit-Sharing Retirement Plan, as amended from time to time, which was merged into the Savings, Profit-Sharing and Stock Ownership Plan effective January 1, 1999.

SAVINGS, PROFIT-SHARING AND STOCK OWNERSHIP PLAN: J. C. Penney Corporation, Inc. Savings, Profit-Sharing and Stock Ownership Plan, as amended from time to time.

SEPARATION FROM SERVICE OR SEPARATES FROM SERVICE: Termination of Service after having attained age 55 by reason of disability, discharge, retirement (including resignation), or death. Termination of Service due to a disability is deemed to occur

upon the later of termination of the Eligible Management Associate's sick pay or at the end of any leave of absence granted the Eligible Management Associate.

SERVICE: The period of time credited to an Eligible Management Associate as service under the terms of the Pension Plan to his Separation from

Service.

SPOUSE: The individual to whom an Eligible Management Associate is legally married under the laws of the State (within the meaning of section 3(10) of ERISA) in which the Eligible Management Associate is domiciled, or if domiciled outside the United States, under the laws of the State of Florida.

TRADITIONAL RETIREMENT AGE: The date on which an Eligible Management Associate attains age 60.

TRADITIONAL RETIREMENT DATE: The first day of the month immediately following the date an Eligible Management Associate attains Traditional Retirement Age if such Eligible Management Associate Separates from Service on such date.

VALUATION DATE: With respect to the Company Accounts, excluding the Penney Stock (Company) Account, each day of the calendar year. With respect to the Penney Stock (Company) Account(s), each day of a calendar year on which the New York Stock Exchange is open. If the New York Stock Exchange is closed, the Penney Stock (Company) Account(s) will have the same value as of the last immediately preceding day the Exchange was open.

ARTICLE III. PARTICIPATION

Each Eligible Management Associate shall participate in the Plan as of such Eligible Management Associate's Early Retirement Date, Traditional Retirement Date, or Delayed Retirement Date, as the case may be; provided, however, that such Eligible Management Associate who has a Separation from Service in the month of December shall commence participation in the Plan as of the last day of that December. Notwithstanding the preceding sentence, effective on and after January 1, 1996, any Associate who, on December 31, 1995, was not classified by Thrift Drug, Inc. as a management associate with a position responsibility level of 14 or higher or who was not participating in a profit incentive compensation program shall not be considered an Eligible Management Associate and shall not participate in the Plan.

An Associate whose name appears in Appendix II or Appendix III of the Supplemental Retirement Program for Management Profit-Sharing Associates of J. C. Penney Corporation, Inc. shall not be eligible to participate in the Plan.

The determination of whether an Associate is an Eligible Management Associate entitled to participate in the Plan shall be made on the Associate's Separation from Service.

ARTICLE IV. BENEFITS

(1) AT EARLY, TRADITIONAL, OR DELAYED RETIREMENT DATE: The annual amount of benefit payable from the Plan in monthly installments to an Eligible Management Associate commencing on such Eligible Management Associate's Early Retirement Date, Traditional Retirement Date, or Delayed Retirement Date, as the case may be, and terminating with the installment payable on the first day of the month in which such Eligible Management Associate dies, shall be:

(a) the sum of

(i) 3% of the Eligible Management Associate's Average Final Compensation multiplied by such Eligible Management Associate's Credited Service not in excess of 10 years;

plus

(ii) 1% of the Eligible Management Associate's Average Final Compensation multiplied by such Eligible Management Associate's

Credited Service in excess of 10 years but not in excess of 30 years;

plus

(iii) 1/2 of 1% of the Eligible Management Associate's Average Final Compensation multiplied by such Eligible Management Associate's Credited Service in excess of 30 years but not in excess of 40 years;

less

(iv) 1/3 of 1% for each month by which the Eligible Management Associate's Early Retirement Date shall precede such Eligible Management Associate's Traditional Retirement Date multiplied by the Eligible Management Associate's Average Final Compensation;

LESS

(b) the sum of

(i) the single-life, no-death-benefit annuity equivalent of (a) the annual amount of pension payable pursuant to the Pension Plan (disregarding Disability Service) assuming that the Eligible Management Associate's Benefit Commencement Date is the first day of the month immediately following the date of such Eligible Management Associate's Separation from Service, (b) the annual amount payable pursuant to the terms of a domestic relations order qualified under Code Section 414(p), (A) from the Pension Plan and (B) from benefits accrued pursuant to Paragraph (1) of Article IV of the Benefit Restoration Plan and (c) the accrued benefit payable pursuant to Paragraph (1) of Article IV of the Benefit Restoration Plan;

plus

(ii) the single-life, no-death-benefit annuity equivalent, as of the Valuation Date which is the next trading date of the New York Stock Exchange following the Eligible Management Associate's Separation from Service, of

(a) the value of all assets allocated to the Eligible Management Associate in the Company Account(s) under the Savings Plan; and

(b) the value of any additional assets which would have been allocated to the Eligible Management Associate's Company Account(s) under the Savings and Profit-Sharing Retirement Plan, the Savings, Profit-Sharing and Stock Ownership Plan, the Mirror Savings Plans, and the Savings Plan had such Eligible Management Associate made all further permissible Matched Deposits under each said plan; and

(c) the value of dividends attributable to units in his Company Account (within the meaning of the Savings, Profit-Sharing and Stock Ownership Plan and the Savings Plan) and distributed to the Eligible Management Associate pursuant to Section 9.04 of the Savings, Profit-Sharing and Stock Ownership Plan and Section 9.04 of the Savings Plan; and

(d) the value of any amounts payable pursuant to the terms of a domestic relations order qualified under Code Section 414(p) out of such Eligible Management Associate's Company Account(s) from the Savings and Profit-Sharing Retirement Plan, the Savings, Profit-Sharing and Stock Ownership Plan, and the Savings Plan; and

(e) the value of benefits payable to the Eligible

Management Associate (or another person on behalf of the Eligible Management Associate from (A) his annual benefit limit make-up account pursuant to paragraph (2) of Article IV of the Benefit Restoration Plan prior to January 1, 1999, and (B) his Company Accounts under the Mirror Savings Plans;

plus

(iii) 50% (less 1/4 of 1% for each month by which the Eligible Management Associate's Early Retirement Date shall precede such Eligible Management Associate's Traditional Retirement Date) of the Eligible Management Associate's Estimated Social Security Benefit;

plus

(iv) in the case of an Eligible Management Associate whose Credited Service is increased pursuant to Paragraph (1) of Article VIII, the amount of annual retirement benefit (or any commutations thereof or substitutions therefor) payable to an Eligible Management Associate from any other employer, but only to the extent determined by the Benefits Administration Committee, expressed in the form of a single-life, no-death-benefit annuity equivalent (as determined by the Benefits Administration Committee), commencing on such Eligible Management Associate's Separation from Service.

In determining the amount referred to in clause (ii) of subparagraph (b) of this Paragraph (1) of this Article IV, it shall be deemed that:

(i) an Eligible Management Associate who has not, at all times when he was eligible to participate in the Savings and Profit-Sharing Retirement Plan and the Savings, Profit-Sharing and Stock Ownership Plan, the Mirror Savings Plans, and the Savings Plan contributed an amount sufficient to share, to the maximum extent, in the Company contribution to such Plan or such predecessor plan has so contributed and that an Eligible Management Associate who did not share, to the maximum extent, in Company contributions for which he was eligible under the Savings and Profit-Sharing Retirement Plan due to any withdrawal of taxed Matched Deposits, be deemed not to have any such withdrawal;

(ii) the share of any such Company contribution deemed to have been credited to an Eligible Management Associate pursuant to this Paragraph (1) shall be deemed to have experienced the same rate of dividends, earnings, and change in value as the actual rate of dividends, earnings, and change in value experienced from the time such share of a Company contribution is deemed to have been credited:

(a) for plan years ending before January 1, 1989, the Penney Stock (Company) Account under the Savings and Profit-Sharing Retirement plan; and

(b) for plan years beginning after December 31, 1988 and ending before January 1, 2002, the Interest Income Account or Fund under the Savings, Profit-Sharing and Stock Ownership Plan; and

(c) for plan years beginning after December 31, 2001, the Interest Income Fund under the Savings Plan;

(iii) the value of the amount of the Company Account(s) and annual limit make-up account paid out pursuant to a domestic relations order qualified under Section 414(p) of the Code deemed to have been credited to an Eligible Management Associate pursuant to this Paragraph shall be deemed to have experienced the same rate of earnings and change in value experienced by the Interest

Income Account under the Savings, Profit-Sharing and Stock Ownership Plan from the time such amount is deemed to have been credited; and

(iv) the rates used to determine the single-life, no-death-benefit annuity equivalent shall be the rates that the Benefits Administration Committee, in its discretion, shall determine.

Notwithstanding any provision to the contrary, the annual benefit payable from the Plan under this Paragraph (1) to an Officer shall not be less than the annual benefit that would have been payable on his Traditional Retirement Date.

(2) MINIMUM BENEFIT: For the purpose of determining the minimum benefit payable under this Paragraph (2), an Eligible Management Associate shall be deemed to have actively participated in the Pension Plan until his Separation from Service and that his average final pay and credited service (as both terms are defined by the Pension Plan) continued to his Separation from Service.

In no event will the amount payable to an Eligible Management Associate under Paragraph (1) of this Article IV at such Eligible Management Associate's Traditional Retirement Date or Delayed Retirement Date, as the case may be, be less than the difference between:

(A) the amount of pension payable pursuant to the early retirement pension benefit provision of the Pension Plan (determined without regard to any compensation or benefit limits imposed by the Code) that would be applicable if the Eligible Management Associate elected to receive benefits pursuant to that provision prior to such Eligible Management Associate's normal retirement date, as defined in the Pension Plan (disregarding Disability Service, if any, and including as Credited Service any increase granted under Article VIII hereof) assuming the Eligible Management Associate's Benefit Commencement Date is the first day of the month immediately following the day of such Eligible Management Associate's Separation from Service under this Plan, and

(B) the amount of pension payable pursuant to the early retirement pension benefit provision of the Pension Plan (determined without regard to any compensation or benefit limits imposed by the Code) that would be applicable if the Eligible Management Associate did not elect to receive benefits pursuant to that provision prior to the Eligible Management Associate's normal retirement date, as defined in the Pension Plan (disregarding Disability Service, if any, and including as Credited Service any increase granted under Article VIII hereof).

In no event will the amount payable under Paragraph (1) of this Article IV to an Eligible Management Associate who Separates from Service on his Early Retirement Date within one year prior to his Traditional Retirement Date and who is granted additional Credited Service pursuant to Paragraph (1) of Article VIII at his Early Retirement Date be less than the difference between:

(A) the amount of pension that would be payable (determined without regard to any compensation or benefit limits imposed by the Code) at such Eligible Management Associate's normal retirement date, as defined by the Pension Plan (disregarding Disability Service, if any, and including as Credited Service, as defined by the Pension Plan, any increase granted under Article VIII hereof), and

(B) the amount of pension payable pursuant to the early retirement pension benefit provision of the Pension Plan (determined without regard to any compensation or benefit limits imposed by the Code) that would be applicable if the Eligible Management Associate elected to receive benefits pursuant to that provision prior to such Eligible Management Associate's normal retirement date, as defined by the Pension Plan (disregarding Disability Service, if any, and excluding as Credited Service any increase granted under Article VIII hereof) assuming the Eligible Management Associate's Benefit Commencement Date is the first day of the month following such associate's Separation from Service, but in no event prior to the date such associate reaches age 59.

Notwithstanding any provision to the contrary, the annual benefit payable from the Plan under this Paragraph (2) to an Officer shall not be less than the annual benefit that would have been payable on his Traditional Retirement Date.

(3) SOCIAL SECURITY MAKE-UP: In addition to any other benefit payable under this Plan, an annual benefit equal to the Estimated Social Security Benefit shall be payable in monthly installments to an Eligible Management Associate commencing on such Eligible Management Associate's Traditional Retirement Date or Delayed Retirement Date up to age 62, as the case may be, (or, for an Eligible Management Associate who Separates from Service within one year prior to his Traditional Retirement Date and who is granted any adjustment pursuant to either clause (i) or (ii) of Paragraph (1) of Article VIII, on his Early Retirement Date) and terminating with the installment payable on the first day of the month in which such Eligible Management Associate dies or with the installment payable on the first day of the month prior to the month in which the Eligible Management Associate first becomes eligible for the primary old age benefit payable under the United States Social Security laws by reason of disability or attainment of age 62, whichever comes first.

An Eligible Management Associate, who, on his Separation from Service, is entitled to disability benefits under the United States Social Security laws, shall not be eligible for any Social Security make-up benefits provided for in this paragraph.

(4) DEATH BENEFIT: If an Eligible Management Associate has elected a form of payment with a guaranteed number of payments and the Eligible Management Associate dies before receiving all benefits payable under that option, remaining payments will be made to the person designated by the Eligible Management Associate as his Beneficiary at the time the form of payment was selected.

If an Eligible Management Associate is married at the time such Eligible Management Associate Separates from Service by reason of death after attaining Early Retirement Age, or if an Eligible Management Associate who has Separated from Service after attaining Early Retirement Age and who is married at the time of his death, dies before payment has begun under the Plan, such Eligible Management Associate's Spouse will receive the benefit that would have been payable if the Eligible Management Associate had a Separation from Service immediately prior to such Eligible Management Associate's death (if he was an active Associate on the date of his death), and had begun to receive benefits immediately prior to his death in the form of a 100% (75% if death occurs prior to January 1, 1996) joint and survivor annuity without payment certain with the Spouse as the beneficiary.

(5) LIFE INSURANCE COVERAGE: Commencing on an Eligible Management Associate's Traditional Retirement Date or Delayed Retirement Date, as the case may be, and ending on such Eligible Management Associate's attainment of age 70, the Company will continue to provide an Eligible Management Associate who has at least 10 years of uninterrupted employment with the Company or a Controlled Group Member with term life insurance coverage at Company expense on a decreasing coverage basis.

The amount of coverage to be provided into retirement shall be equal, at such Eligible Management Associate's Traditional Retirement Date, to 100% of the amount of coverage being provided to him at Company expense immediately prior to the attainment of his Traditional Retirement Age reduced to 90%, 80%, 70%, 60%, 50%, 40%, 30%, 20%, and 10% of such amount of coverage on the first day of the month following his attainment of age 61, 62, 63, 64, 65, 66, 67, 68, and 69, respectively.

The amount of coverage to be provided at a Delayed Retirement Date shall be the applicable percentage based upon the Eligible Management Associate's age on such Delayed Retirement Date multiplied by the amount of coverage being provided to him at Company expense immediately prior to his Delayed Retirement Date and decreasing thereafter as provided in the preceding sentence.

If, on the Eligible Management Associate's Traditional Retirement Date or Delayed Retirement Date, as the case may be, such Eligible Management Associate is already covered by term life insurance under the Company's term life insurance plan on account of the Eligible Management Associate's total disability, such Eligible Management Associate shall not be eligible for any term life insurance coverage provided for in this paragraph. Benefits payable under this Plan will be paid to the Beneficiary designated by the Eligible Management Associate as soon as practicable after receipt of a properly submitted claim.

A Participant whose group term life insurance coverage under the Plan terminates because of his attainment of age 70 will have the right to convert his group term life insurance coverage to an individual policy to the extent, and only to the extent,

permitted under the group policy applicable to the Participant. Any election to convert to individual coverage must be made within 31 days after the Participant's coverage under the Plan terminates and must be made in accordance with all requirements specified in such policy. The amount of coverage that may be converted shall be the amount in effect immediately before the Participant attained age 70.

(6) EFFECT OF CERTAIN PAYMENTS MADE IN DECEMBER 1992: In the event Thrift Drug, Inc., in its discretion, made payments to a current or former Eligible Management Associate on or before December 31, 1992 under the Thrift Drug, Inc. profit incentive compensation program and under the Thrift Drug, Inc. Performance Unit Plan, or J. C. Penney Company, Inc. 1984 Performance Unit Plan or any successor plans, and such payments were attributable to the fiscal year ending on January 30, 1993, this Paragraph shall apply. The effect of such payments on the benefits payable to such individual under the Pension Plan and under the J. C. Penney Company, Inc. Savings, Profit-Sharing and Stock Ownership Plan shall be determined with respect to whether an increase or decrease in benefits resulted. Benefits payable under this Plan to such current or former Eligible Management Associate shall be adjusted (a) to offset any such increase in benefits and/or (b) to restore any such decrease in benefits so that no advantage or detriment, as the case may be, shall be experienced by any such current or former Eligible Management Associate with respect to total retirement benefits under the above-referenced plans and this Plan.

(7) NONDUPLICATION OF BENEFITS: The benefits payable to or on behalf of an Eligible Management Associate under the Plan shall not duplicate benefits payable from the Pension Plan, the Benefit Restoration Plan, the Mirror Savings Plans, or any separation pay program of the Company or a Controlled Group Member. To the extent that any benefits otherwise payable under the Plan are paid from one or more of the plans or programs described in the prior sentence, such benefits under the Plan shall be cancelled.

ARTICLE V. FORM AND COMMENCEMENT OF BENEFIT PAYMENTS

(1) DELAYED COMMENCEMENT OF BENEFITS: An Eligible Management Associate may elect that the commencement of his annual benefit payable under Paragraph (1) or (2) of Article IV be delayed to the first day of any month following his Early Retirement Date, Traditional Retirement Date, or Delayed Retirement Date, as the case may be (but not beyond the first day of the month in which he attains age 70). In such a case, the amount of annual benefit payable under Paragraph (1) or (2) of Article IV shall be increased by 1/2 of 1% for each month that the commencement of such benefits is delayed.

(2) OPTIONAL FORMS OF BENEFIT PAYMENT: Except as otherwise provided in this Plan and subject to such rules and regulations as the Benefits Administration Committee may establish from time to time with respect to time and manner of election, an Eligible Management Associate may elect, prior to the commencement of his annual benefit payable under Paragraph (1) or (2) of Article IV, to receive a benefit of equivalent actuarial value (applying factors utilized in the Pension Plan) to such benefit, which may be one of the forms of benefit options described in the Pension Plan. The Benefits Administration Committee has full authority to revise the forms of benefit options available under this Plan.

(3) SMALL ANNUITIES: If the total benefit payable to an Eligible Management Associate under Paragraph (1) or (2) of Article IV would not provide monthly payments exceeding $100, the benefit shall be converted into an actuarially equivalent lump sum payment (applying the actuarial factors utilized in the Pension Plan). If an Eligible Management Associate who has begun to receive payments under the Plan and who has elected a form of payment with a guaranteed number of payments dies, and if the monthly benefit that becomes payable to the beneficiaries of the Eligible Management Associate does not exceed $100 per beneficiary, the monthly benefit shall be converted into an actuarially equivalent lump sum payment (applying the actuarial factors utilized in the Pension Plan).

ARTICLE VI. ADMINISTRATION

Except as otherwise provided, the Plan shall be administered by the Benefits Administration Committee which shall have all rights and powers necessary to carry out its functions under the Plan. The Benefits Administration Committee shall have the discretionary authority under the Plan to determine eligibility for benefits and to construe the terms of the Plan. Such authority shall include, but not be limited to, the right to:

(a) correct any defect, supply any omission or reconcile any inconsistency or ambiguity in the Plan in the manner and to the extent that the Benefits Administration Committee deems desirable to carry on the purpose of the Plan;

(b) resolve all questions relating to the eligibility of Associates to become Eligible Management Associates and the eligibility of Eligible Management Associates to participate in the Plan;

(c) determine the amount of benefits payable to Eligible Management Associates and authorize and direct the Company with respect to the payment of benefits under the Plan;

(d) make all other determinations and resolve all questions of fact necessary or advisable for the administration of the Plan; and

(e) make, amend, and rescind such rules as it deems necessary for the proper administration of the Plan.

The Benefits Administration Committee will keep a written record of its action and proceedings regarding the Plan and all dates, records, and documents relating to its administration of the Plan.

ARTICLE VII. TYPE OF PLAN

The Plan is an unfunded plan maintained by the Company primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees. The Plan shall be construed according to the provisions of ERISA applicable to such plans. As such, the Plan is intended to be construed so as not to provide income to any Eligible Management Associate or

Beneficiary for purposes of the Code prior to actual receipt of benefit payments from the Plan. Benefits under the Plan (other than the life insurance benefits referred to in Paragraph (5) of Article IV which may be insured) are paid from the general assets of the Company and are not guaranteed.

In the event that it should subsequently be determined by statute or by regulation or ruling that the Plan is not "a plan which is unfunded and is maintained primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees" within the meaning of sections 201(2), 301(a)(3), 401(a)(1), and 4021(b)(6) of ERISA and section 2520.104-24 of Chapter 29 of the Code of Federal Regulations, participation in the Plan shall be restricted by the Benefits Administration Committee to the extent necessary to assure that it will be such a plan within the meaning of such sections.

Notwithstanding any other provision of the Plan, if the benefits of an Eligible Management Associate become taxable prior to distribution from the Plan, such amounts shall be distributed as soon as practicable to the affected Eligible Management Associate.

ARTICLE VIII. MISCELLANEOUS

(1) ADDITIONAL CREDITED SERVICE AND OTHER ADJUSTMENTS: For all purposes of the Plan, the Credited Service of an Eligible Management Associate may be increased, and with respect to an Eligible Management Associate whose Early Retirement Date is within one year prior to his Traditional Retirement Date, (i) the percentage reduction on account of early retirement referred to in clause (iv) of Subparagraph (a) of Paragraph (1) of Article IV may be decreased or waived, and (ii) the entitlement to and the amount of benefits or coverage referred to in Paragraphs (2), (3), and (5) of Article IV may be accelerated or increased, as the case may be, in the discretion of the Human Resources and Investment Committee.

For all purposes of the Plan, the Human Resources and Investment Committee in its discretion, may make adjustments in Compensation and Credited Service with respect to payments of severance pay, including, but not limited to, outplacement pay and critical pay.

(2) AMENDMENT AND TERMINATION: The Board of Directors may amend or modify the Plan at any time, without prior notice or approval. The Board of Directors may suspend, discontinue, or terminate the Plan at any time without prior notice or approval. In no event will any amendment, modification, suspension, discontinuance, or termination adversely affect existing life insurance coverage for retirees or the Plan benefit for any Eligible Management Associate for whom benefit payments have already begun in accordance with the Plan as in effect prior to the effective date of the amendment, modification, suspension, discontinuance, or termination unless otherwise required to comply with applicable law.

If the Plan is terminated, any Eligible Management Associate who, as of the effective date of Plan termination, has reached Traditional Retirement Age but who has not reached age 65 shall be entitled to receive, at his actual Separation from Service, the benefits, if any, to which he would have been entitled under Paragraph (1) or (2) of Article IV had he Separated from Service on the day before the effective date of Plan termination, reduced by the percentage derived by dividing the number of months of Credited Service, if any, from the Plan termination effective date to the date of actual Separation from Service by the number of months of Credited Service from the Plan termination effective date to the date the Eligible Management Associate will have reached age 65. Any such Eligible Management Associate shall also be entitled to receive at his actual Separation from Service (other than by reason of death) a benefit, if any, to which he would have been entitled under Paragraph (3) of Article IV had the Plan not been terminated. If, after Plan termination, such Eligible Management Associate Separates from Service by reason of death, Paragraph (4) of Article IV shall apply, if appropriate.

If the Plan is terminated, any Eligible Management Associate who, as of the effective date of Plan termination, has reached his Early Retirement Date (assuming a Separation from Service on such date) shall be entitled to receive, at his actual Separation from Service, the benefits, if any, to which he would have been entitled under Paragraph (1) or (2) of Article IV calculated as if he had reached his Traditional Retirement Age and Separated from Service on the day before the effective date of Plan termination and disregarding the percentage reduction on account of early retirement referred to in clause (iv) of Subparagraph (a) of Paragraph (1) of Article IV, reduced by the percentage derived by dividing the number of months of Credited Service, if any, after his Traditional Retirement Date by 60. Any such Eligible Management Associate shall also be entitled to receive at his actual Separation from Service (other than by reason of death) a benefit, if any, to which he would have been entitled under Paragraph (3) of Article IV had the Plan not been terminated. If after Plan termination, such Eligible Management Associate Separates from Service by reason of death, Paragraph (4) of Article IV shall apply, if appropriate.

If the Plan is terminated, any Eligible Management Associate who, as of the effective date of Plan termination (a) has reached age 50, (b) has 10 or more years of credited service, as defined by the Pension Plan, as an Eligible Management Associate, and (c) is not otherwise eligible for benefits under this Paragraph (2) of this Article VIII, shall be entitled to receive, at his actual Separation from Service but no earlier than his Traditional Retirement Date, a benefit equal to the difference between the amount of pension which would be payable pursuant to the early retirement pension benefit provision of the Pension Plan that would be applicable if the Eligible Management Associate elected to receive benefits pursuant to that provision prior to his normal retirement date, as defined in the Pension Plan (disregarding Disability Service, if any) and the amount of pension payable pursuant to the early retirement pension benefit provision of the Pension Plan that would be applicable if the Eligible Management Associate did not elect to receive benefits pursuant to that provision prior to his normal retirement date, as defined in the Pension Plan (disregarding Disability Service, if any) reduced by the percentage derived by dividing the number of months of Credited Service, if any, after Traditional Retirement Date (assuming a separation from Service) by 60.

In no event will any future amendment or modification of the Plan adversely affect the right to Plan benefits which vest on Plan termination as set forth in this Paragraph (2) without the consent of at least 75 percent of the affected Eligible Management Associates unless such amendment or modification is specifically required to comply with applicable law.

Each amendment to the Plan by the Board of Directors will be made only pursuant to unanimous written consent or by majority vote at a meeting. Upon such action by the Board of Directors, the Plan will be deemed amended as of the date specified as the effective date by such action or in the instrument of amendment. The

effective date of any amendment may be before, on, or after the date of such action of the Board of Directors.

(3) RIGHTS OF ASSOCIATES: Except for the Associate's non-forfeitable interest as set forth in Paragraph (2) of this Article VIII, neither the establishment of the Plan nor any action thereafter taken by the Company or any Controlled Group Member or by the Benefits Administration Committee shall be construed as giving to any Associate any vested right to a benefit from the Plan or a right to be retained in employment or any specific position or level of employment with the Company, or any Controlled Group Member. Moreover, no Associate shall have any right or claim to any benefits under this Plan if the Associate is summarily discharged (including resignation in lieu thereof) unless the Benefits Administration Committee, in its discretion, determines that such Associate shall be eligible for such benefits notwithstanding such summary discharge.

(4) MISTAKEN INFORMATION: If any information upon which an Eligible Management Associate's benefit under the Plan is calculated has been misstated by the Eligible Management Associate or is otherwise mistaken, such benefit shall not be invalidated (unless upon the basis of the correct information the Eligible Management Associate would not have been entitled to a benefit), but the amount of the benefit shall be adjusted to the proper amount determined on the basis of the correct information and any overpayments shall be charged against future payments to the Eligible Management Associate or his Beneficiary.

(5) LIABILITY: Neither the Board of Directors (including any committees thereof) nor any member of the Benefits Administration Committee or the Human Resources and Investment Committee nor any person to whom any of them may delegate any duty or power in connection with administering the Plan shall be personally liable for any action or failure to act with respect to the Plan.

(6) BENEFITS FOR REEMPLOYED ELIGIBLE MANAGEMENT ASSOCIATES: If a retired Eligible Management Associate subsequently is reemployed by the Company or a Controlled Group Member, the payment of benefits hereunder shall continue. Any life insurance coverage in effect pursuant to Paragraph (5) of Article IV shall cease effective on the date a rehired Associate becomes eligible for coverage under the Company's term life insurance plan. Upon such Associate's Separation from Service he shall be entitled to receive applicable benefits, if any, under Article IV pursuant to uniform rules approved by the Benefits Administration Committee.

(7) CONSTRUCTION: In determining the meaning of any provision of the Plan, words imparting the masculine gender shall include the feminine and the singular shall include the plural, unless the context requires otherwise. Headings of paragraphs and Articles in the Plan are for convenience only and are not intended to modify or affect the meaning of the substantive provisions of the Plan.

(8) NON-ASSIGNABILITY OF BENEFITS: The benefits payable hereunder or the right to receive future benefits under the Plan may not be anticipated, alienated, pledged, encumbered, or subjected to any charge or legal process, and if any attempt is made to do so, or a person eligible for any benefits becomes bankrupt, the interest under the Plan of the person affected may be terminated by the Benefits Administration Committee which, in its sole discretion, may cause the same to be held or applied for the benefit of one or more of the dependents of such person or make any other disposition of such benefits that it deems appropriate.

(9) GOVERNING LAW: Except to the extent that the Plan may be subject to the provisions of ERISA, the Plan will be construed and enforced according to the laws of the State of Florida, without giving effect to the conflict of laws principles thereof. Except as otherwise required by ERISA, every right of action by an Associate, former Associate, or beneficiary with respect to the Plan shall be barred after the expiration of three years from the date of Separation of Service of the Eligible Management Associate or the date of receipt of the notice of denial of a claim for benefits, if earlier. In the event ERISA's limitations on legal actions do not apply, the laws of the State of Florida with respect to limitations of legal actions shall apply.

(10) TRANSFERRED ELIGIBLE MANAGEMENT ASSOCIATES: In the event of the transfer of an Eligible Management Associate to a "non-participating employer" as defined below, said Eligible Management Associate shall continue to be eligible to participate in this Plan in accordance with Article III. The Service and Compensation of the Eligible Management Associate with the non-participating employer shall be recognized as attributable to the Company to the extent permitted by the Plan in determining benefits under the Plan. A non-participating employer shall mean a participating employer in the Supplemental Retirement Program for Management Profit-Sharing Associates of J. C. Penney Corporation, Inc.

ARTICLE IX. CLAIMS PROCEDURES

The Benefits Administration Committee shall be the named fiduciary of the Plan for the review of denied claims and in reviewing claims it shall act in accordance with Section 5.03 of ERISA and federal regulations thereunder. The Company shall establish a reasonable claims procedure which shall be communicated to Participants.

Any action taken or determination made by the Benefits Administration Committee will be conclusive on all parties.

APPENDIX I

ECKERD CORPORATION
SUPPLEMENTAL RETIREMENT PROGRAM

Potential Eligible Management Associates as of March 21, 2002

<Table>
<Caption>

NAME	OFFICER
<S>	<C>
BONSTROM, ROBERT	
CAREY, JOHN	YES
CERRA, ENZO	YES
CLARK, PAUL	
CORO, RICARDO	YES
EDMONSTON, RONALD	
FISHER, KEN	
GARRISON, GARRY	
GENESIO, ROBERT	
GONDI, MAURICIO	
HALPERN, DAVID	
JUSTISS, DONNA	YES
MARASCO, FRANCIS	YES
MARIANI, ANTHONY	
MCDONALD, LLOYD	YES
MCGEOWN, RICHARD	
MCLEMORE, RON	
MILLER, DENNIS	YES

PESOTSKI, STANLEY	
PETERSEN, KENNETH	YES
PROGAR, RALPH	
SAUNDERS, DAVID	
STIPANOVICH, CHARLES	
THOMPSON, GERALD	YES
VELTRI, GEORGE	
VERSCHAREN, ROBERT	YES

</Table>

EXHIBIT 10(ii)(al)

ECKERD CORPORATION

EXECUTIVE SUPPLEMENTAL PLAN

EFFECTIVE MARCH 21, 2002

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DOCUMENT HISTORY

This Plan was adopted by the Board of Directors of Eckerd Corporation on May 31, 2002, as amended on the following dates:

None

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ECKERD CORPORATION
EXECUTIVE SUPPLEMENTAL PLAN

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ARTICLE ONE

DEFINITIONS

For the purposes of the Plan, the following terms shall have the following meanings:

Age: Actual age in complete years plus days in an incomplete year as determined on the earlier of an Officer's Separation from Service or the date he is no longer an Officer. If a Participant who was a former Officer again becomes an Officer, his Age shall include the period of time that he was a former

Officer.

Associate: Any person who is classified as an associate and employed by a Controlled Group Member if the relationship between a Controlled Group Member and such person would constitute the legal relationship of employer and employee.

Average Final Pay: The average annual Compensation of a Participant with respect to the 3 calendar years of his highest Compensation determined by taking into account (a) the Compensation attributable to his Service in the calendar year in which occurs his Separation from Service, and (b) the Compensation during either of the following, whichever is appropriate:

(i) the 9 full calendar years of Service immediately preceding the calendar year in which occurs his Separation from Service; or

(ii) if he has less than 9 full calendar years of Service, the entire number of full calendar years of such Service immediately preceding the calendar year in which occurs his Separation from Service.

If such Participant has less than 3 full calendar years of Service prior to the calendar year in which occurs his Separation from Service, Average Final Pay shall mean the aggregate Compensation earned with respect to his Service immediately preceding the calendar year in which occurs his Separation from Service, divided by the total number of full months of such Service, multiplied by 12.

Beneficiary: The one or more persons or entities entitled to receive a distribution of a Participant's interest in the Plan in the event of his death.

Benefit Commencement Date: The date on which payment of a Participant's retirement benefits under the Plan begin which shall be the first day of the month after the later of the Participant's (a) Separation from Service or (b) attainment of age 60, unless the Participant defers commencement of benefits pursuant to Section 3.05.

Benefits Administration Committee: The Committee appointed by the Board of Directors of the Company to administer the Plan.

Code: The Internal Revenue Code of 1986, as amended from time to time. References to "regulations" are to regulations published by the Secretary of the Treasury under applicable provisions of the Code, unless otherwise expressly indicated.

Company: Eckerd Corporation and any successor corporation that adopts the Plan.

Compensation: The wages paid to an Associate by the Company, or, for the purpose of determining Average Final Pay only, by a Controlled Group Member, as the term wages is defined in Code section 3401(a), determined without regard to any reduction for workers' compensation and state disability insurance reimbursements, and all other compensation payments for which the Company or other Controlled Group Member is required to furnish the Associate a written statement under Code sections 6041(d), 6051(a)(3) and 6052, reduced by the following terms:

(a) all expatriate and foreign service allowances, including without limitation cost-of-living adjustments,

(b) tax gross-up payments,

(c) noncash prizes,

(d) income attributable to employer-provided group term life insurance,

(e) income recognized with respect to stock options and stock awards,

(f) tax equalization payments,

(g) taxable and nontaxable relocation payments,

(h) payments of benefits under the Company's long term incentive plans or any other nonqualified plan of deferred compensation,

(i) [Reserved]

(j) severance pay, outplacement pay and/or critical pay,

(k) third-party disability payments (State of New York),

(l) home sale bonus payments,

(m) mortgage interest assistance payments,

(n) senior management perquisites, tax preparation fees and allowances for travel from Alaska and Hawaii,

(o) legal settlements constituting back pay or other wage payments,

(p) non-Associate travel reimbursements,

(q) clothing allowance payments and

(r) payments made pursuant to a non-compete agreement.

In addition, Compensation includes any contributions made by the Company or Controlled Group Member on behalf of an Associate pursuant to a deferral election under any employee benefit plan containing a cash or deferred arrangement under Code section 401(k) and any amounts that would have been received as cash but for an election to receive benefits under a cafeteria plan meeting the requirements of Code section 125, and amounts deferred by an Associate under the J. C. Penney Corporation, Inc. Mirror Savings Plans I, II and III.

An Associate who is in the service of the armed forces of the United States during any period in which his reemployment rights are guaranteed by law will be considered to have received the same rate of Compensation during his absence that he was receiving immediately prior to his absence, provided he returns to employment with a Controlled Group Member within the time such rights are guaranteed.

Controlled Group: The Company and all other corporations, trades and businesses, the employees of which, together with employees of the Company, are required by the first sentence of subsection (b), by subsection (c), by subsection (m) or by subsection (o) of Code section 414 to be treated as if they were employed by a single employer.

Controlled Group Member: Each corporation or unincorporated trade or business that is or was a member of a Controlled Group, but only during such period as it is or was such a member.

Effective Date: March 21, 2002.

ERISA: The Employee Retirement Income Security Act of 1974, as amended from time to time.

Human Resources and Investment Committee: The Committee appointed by the Board of Directors of the Company.

Officer: An Associate who is an officer of the Company or a subsidiary of the Company as determined by the Chief Executive Officer of the Company, or his successor by position or title.

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Participant: An Officer who has satisfied the eligibility and participation requirements in Article Two.

Pension Plan: The J. C. Penney Corporation, Inc. Pension Plan as amended from time to time.

Plan: The Eckerd Corporation Executive Supplemental Plan, as amended from time to time.

Points: The sum of an Officer's Age and Service determined on his Separation from Service. If the sum of an Officer's days of Age and Service in incomplete years equals or exceeds 365, a Point shall be added to the sum of the Officer's complete years of Age and Service.

Separation from Service: The earliest of the date an Associate quits, retires, is discharged or dies.

Service: The number of complete years of employment plus days in an incomplete year beginning on his date of employment as an Officer and ending on the earlier of his Separation from Service or the date he is no longer an Officer.

Spouse: The individual to whom a Participant is legally married under the laws of the State (within the meaning of section 3(1) of ERISA) in which he is domiciled, or if he is domiciled outside the United States, under the laws of the State of Florida.

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ARTICLE TWO

ELIGIBILITY AND PARTICIPATION

2.01 Eligibility

An Officer shall be eligible to participate in the Plan effective on his first day of employment as an Officer if the Officer is not a participant in any of the following plans:

(a) The First Executive Supplemental Benefit Plan of Eckerd Corporation and its Subsidiaries; or

(b) The Second Executive Supplemental Benefit Plan of Eckerd Corporation and its Subsidiaries; or

(c) The Eckerd Corporation Supplemental Retirement Program; or

(d) The Supplemental Retirement Program for Management Profit-Sharing Associates of J. C. Penney Corporation, Inc.

2.02 Participation

An Officer who has satisfied the eligibility requirements of Section 2.01 above shall participate in the Plan if the Officer is enrolled in the Plan in the manner determined by the Plan Administrator.

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ARTICLE THREE

BENEFITS

3.01 Points Required for Benefits

A Participant who on or after the attainment of age 60 has a Separation from Service for a reason other than death shall qualify for a retirement benefit under the Plan only if such Participant:

(a) was an Officer both on March 21, 2002 and on his Separation from Service, and has at least 65 Points; or

(b) was an Officer both after March 21, 2002 and on his Separation from Service, and has at least 70 Points.

No other Participant shall be entitled to retirement benefits under the Plan unless benefits are payable because of the Participant's death in accordance with Section 3.05.

3.02 Age 65 Retirement Benefit

A Participant who satisfies the requirements in Section 3.01 and has a Separation from Service on or after age 65 shall be entitled to receive an annual retirement benefit from the Plan beginning on his Benefit Commencement Date equal to 20% of his Average Final Pay. One-twelfth of such annual retirement benefit shall be paid monthly for the life of the Participant.

3.03 Early Retirement Benefit

A Participant who satisfies the requirements in Section 3.01 and has a Separation from Service prior to the attainment of age 65 shall be entitled to receive an annual retirement benefit from the Plan beginning on his Benefit Commencement Date equal to the annual retirement benefit described in Section 3.02 but reduced by 0.4167% for each month his Benefit Commencement Date precedes the month in which he would reach age 65. One-twelfth of such annual retirement benefit shall be paid monthly for the life of the Participant.

3.04 Optional Forms of Payment

A Participant who satisfies the requirements in Section 3.01 and has a Separation from Service may elect in the manner prescribed by the Plan Administrator to have his retirement benefits under the Plan paid in one of the optional forms of benefit described below. Benefits payable from the Plan pursuant to an optional form

elected by the Participant shall be subject to all terms, conditions and limitations prescribed by the Plan Administrator.

(a) Joint and Survivor Annuity: A monthly annuity for the life of a Participant and, after his death, a monthly survivor annuity for the life of the Participant's Spouse which will be equal to 50% or 100% (as the Participant may elect) of the amount of the monthly annuity payable during the joint lives of the Participant and his Spouse. If the Participant does not elect the amount of the monthly survivor annuity to be paid to his Spouse, the survivor annuity will be equal to 50% of the amount of the monthly annuity payable during the joint lives of the Participant and his Spouse.

(b) Single Life Annuity with Guaranteed Payments: An annuity under which reduced monthly payments are made to the Participant during his lifetime, and if the Participant dies before he has received 120 monthly payments (as elected by the Participant prior to the date retirement benefits actually begin), monthly payments in the same amount will be continued to his Beneficiary until the Participant and Beneficiary have received the minimum number of monthly payments elected by the Participant. If one or more Beneficiaries survive the Participant but all die before the minimum number of monthly payments have been made, the remaining monthly payments will be converted into an Actuarially Equivalent (as determined under the Pension Plan) immediate lump sum payment and paid to the estate of the last surviving Beneficiary. If, however, the Participant dies before receiving the minimum number of monthly payments leaving no Beneficiaries surviving him, the remaining monthly payments will be converted into an

Actuarially Equivalent (as determined under the Pension Plan) immediate lump sum payment and paid to the Participant's surviving Spouse or, if he has no surviving Spouse, equally to his surviving children, and if he has no surviving Spouse or children, to his estate. If the monthly benefit that becomes payable to any Beneficiary does not exceed $100, the remaining monthly benefits payable to such Beneficiary will be converted into an Actuarially Equivalent (as determined under the Pension Plan) immediate lump sum payment and paid to the Beneficiary as soon as administratively feasible.

3.05 Deferral of Benefits

A Participant who is entitled to an early retirement benefit under Section 3.03 may elect in the manner prescribed by the Plan Administrator to defer commencement of benefits to which he is entitled under the Plan to the first day of any month after his Separation from Service but no later than the first day of the month after he attains age 65.

3.06 Death Benefits

In the event a Participant who has attained at least age 55 dies prior to his Benefit Commencement Date, without electing a form of benefit, and is married as of his date of death, 75% of the retirement benefit described in Section 3.02 or Section 3.03, whichever is applicable, shall be paid to his Spouse in monthly installments for the life of the Spouse. The Benefit Commencement Date for the Spouse shall be the same as the Benefit Commencement Date would have been for the Participant, except that the Spouse may elect in the manner prescribed by the Plan Administrator to defer commencement of benefits to the first day of any subsequent month but no later than the first day of the month after the Participant would have attained age 65.

No other death benefit shall be payable under the Plan because of the death of a Participant unless the Participant elected an optional form of payment in accordance with Section 3.04.

ARTICLE FOUR

TYPE OF PLAN

4.01 Top Hat Plan

The Plan is an unfunded plan maintained by the Company primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees. The Plan shall be construed according to the provisions of the ERISA and federal regulations thereunder applicable to such plans. As such, the Plan is intended to be construed so as not to provide income to any Participant or Beneficiary for purposes of the Code prior to actual receipt of benefit payments from the Plan. Benefits under the Plan are paid from the general assets of the Company and are not guaranteed.

In the event that it should subsequently be determined by statute or by regulation or ruling that the Plan is not "a plan which is unfunded and is maintained primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees" within the meaning of Sections 201(2), 301(a)(3), 401(a)(1), and 4021(b)(6) ERISA and section 2520.104-24 of Chapter 29 of the Code of Federal Regulations, participation in the Plan shall be restricted by the Benefits Administration Committee to the extent necessary to assure that it will be such a plan within the meaning of such sections.

Notwithstanding any other provision of the Plan, if the benefits of a Participant become taxable prior to distribution from the Plan, such amounts shall be distributed as soon as practicable to the affected Participant.

ARTICLE FIVE

PLAN ADMINISTRATION

5.01 Plan Administrator

Except as otherwise provided, the Plan shall be administered by the Benefits Administration Committee which shall have all rights and powers necessary to carry out its functions under the Plan. The Benefits Administration Committee shall have the discretionary authority under the Plan to determine eligibility for benefits and to construe the terms of the Plan. Such authority shall include, but not be limited to, the right to:

(a) Correct any defect, supply any omission or reconcile any inconsistency or ambiguity in the Plan in the manner and to the extent necessary to carry on the purpose of the Plan;

(b) Resolve all questions relating to the eligibility of Associates to participate in the Plan;

(c) Determine the amount of benefits payable to or on behalf of Participants and authorize and direct the Company with respect to the payment of benefits under the Plan;

(d) Make all other determinations and resolve all questions of fact necessary or advisable for the administration of the Plan; and

(e) Make, amend and rescind such rules as necessary for the proper administration of the Plan.

The Benefits Administration Committee will keep a written record of its action and proceedings regarding the Plan and all dates, records, and documents relating to its administration of the Plan.

5.02 Claims Procedure

The Benefits Administration Committee shall be the named fiduciary of the Plan for the review of denied claims and in reviewing claims it shall act in accordance with Section 5.03 of ERISA and federal regulations thereunder. The Company shall establish a reasonable claims procedure which shall be communicated to Participants.

Any action taken or determination made by the Benefits Administration Committee will be conclusive on all parties.

ARTICLE SIX

MISCELLANEOUS

6.01 Amendment and Termination

The Human Resources and Investment Committee may amend the Plan at any time, without prior notice to, or approval of, Officers or Participants. Any amendment that would substantially increase the cost of the Plan shall require the approval of the Board of Directors of the Company. Amendments may be made effective on a future date or retroactively to an earlier date. Amendments are adopted by written resolutions in the minutes of the Human Resources and Investment Committed or by unanimous written consent in lieu of a meeting. The Board of Directors of the Company may terminate the Plan at any time without prior notice to, or approval of, Officers or Participants. In no event will any amendment or termination adversely affect existing benefit payments which have already begun in accordance with the Plan unless otherwise required to comply with applicable law.

In the event that it should be determined by statute or by regulation or by ruling of a court of competent authority that the Plan is not a Plan which is unfunded and is maintained primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees as described in Article Four, the Plan shall terminate without formal action of the Board of Directors of the Company. All benefits payable to or on behalf of each Participant shall be paid in a lump sum amount as soon as administratively feasible.

6.02 Rights of Associates

Neither the establishment of the Plan nor any action thereafter taken by the Company or by any subsidiary or by the Human Resources and Investment Committee or Benefits Administration Committee shall be construed as giving to any Associate any vested right to a benefit from the Plan or a right to be retained in employment or any specific position or level of employment with the Company or any subsidiary.

6.03 Mistaken Information

If any information upon which a person's benefit under the Plan is calculated has been misstated by the person or is otherwise mistaken, such benefit shall not be invalidated (unless upon the basis of the correct information he would not have been entitled to a benefit), but the amount of the benefit shall be adjusted to the proper amount determined on the basis of the correct information and any overpayments shall be charged against future payments to the person or his Beneficiary.

6.04 Liability

Neither the Board of Directors of the Company or of any Subsidiary nor any member of the Human Resources and Investment Committee or the Benefits Administration Committee nor any person to whom any of them may delegate any duty or power in connection with administering the Plan shall be personally liable for any action or failure to act with respect to the Plan.

6.05 Construction

In determining the meaning of any provision of the Plan, words imparting the masculine gender shall include the feminine and the singular shall include the plural, unless the context requires otherwise. Headings in the Plan are for convenience only and are not intended to modify or affect the meaning of the substantive provisions of the Plan.

6.06 Non-assignability of Benefits

The benefits payable hereunder or the right to receive future benefits under the Plan may not be anticipated, alienated, pledged, encumbered, or subjected to any charge or legal process, and if any attempt is made to do so, or a person eligible for any benefits becomes bankrupt, the interest under the Plan of the person affected may be terminated by the Benefits Administration Committee which, in its sole discretion, may cause the same to be held or applied for the benefit of one or more of the dependents of such person or make any other disposition of such benefits that it deems appropriate.

6.07 Governing Law

Except to the extent that the Plan may be subject to the provisions of ERISA, the Plan will be construed and enforced according to the laws of the State of Florida, without giving effect to the conflict of laws principles thereof. Except as otherwise required by ERISA, every right of action by an Associate, former Associate, or Beneficiary with respect to the Plan shall be barred after the expiration of three years from the Separation from Service of the Associate or the date of receipt of the notice of denial of a claim for benefits, if earlier. In the event ERISA's limitations on legal actions do not apply, the laws of the State of Florida with respect to limitations of legal actions shall apply.

EXHIBIT 10(ii)(am)

J. C. PENNEY CORPORATION, INC.

SUPPLEMENTAL TERM LIFE INSURANCE PLAN

FOR MANAGEMENT PROFIT-SHARING ASSOCIATES

ADOPTED EFFECTIVE JANUARY 1, 2003

J. C. PENNEY CORPORATION, INC.
SUPPLEMENTAL TERM LIFE INSURANCE PLAN
FOR MANAGEMENT PROFIT-SHARING ASSOCIATES

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ARTICLE 1

INTRODUCTION

1.1 Purpose Of Plan. The J. C. Penney Corporation, Inc. Supplemental Term Life Insurance Plan For Management Profit-Sharing Associates (the "Plan") is an "employee welfare benefit plan" pursuant to ERISA. The purpose of the Plan is to permit eligible retired profit-sharing management Associates of J.C. Penney Corporation, Inc. and certain designated subsidiaries who elect to participate to purchase group term life insurance benefits directly from the Insurer (as hereinafter defined). This document, together with the Policies (as hereinafter defined) will be construed as a single group term life insurance plan. Capitalized terms used throughout the Plan have the meanings set forth in Article 2 unless the context clearly requires otherwise or another definition is expressly assigned to the term in a particular usage.

1.2 Plan Status. The Plan is intended to satisfy the requirements of an after-tax option pursuant to the cafeteria plan requirements under Section 125(d) of the Code.

1.3 Suppression Of Prior Plan. This document is effective January 1, 2003 except as otherwise provided herein. All prior versions of the Plan document are hereby suppressed or superseded. The Plan was originally adopted effective January 1, 1978.

ARTICLE 2

DEFINITIONS

2.1 "Administrator" means the Benefits Administration Committee of the Company or such other person or committee as may be appointed from time to time by the Human Resources Committee of the Management Committee of the Company or any successor thereto ("HR Committee").

2.2 "Annual Earnings for Benefits" means the greater of (i) the Participant's "Annual Earnings for Benefits" for purposes of the Associate-Paid Plan on the Participant's retirement date or (ii) for a retired Participant who is reemployed by a Participating Employer and who becomes eligible for the Associate-Paid Plan and later loses eligibility under the Associate-Paid Plan, such retired Participant's Annual Earnings for Benefits at such time as the Participant lost eligibility under the Company-Paid Plan.

2.3 "Associate" means a person who is employed by a Participating Employer and paid through a participating employer's payroll system. The term "Associate" does not include a person who is classified as an independent contractor by the Participating Employer for purposes of federal income tax reporting and withholding. The designation of an "Associate" by the Company shall be final and not subject to any redetermination of employment classification by any taxing authority such as the Internal Revenue Service or any other governmental authority or agency. The term "Associate" does not include any person who performs services for a Participating Employer as a "leased employee" within the meaning of Code Section 414 (n), or who performs services through an agreement with a leasing organization.

2.4 "Associate-Paid Plan" means the J.C. Penney Corporation, Inc. Associate-Paid Group Term Life Insurance Plan, as amended from time to time.

2.5 "Code" means the Internal Revenue Code of 1986, as amended and the regulations promulgated thereunder. Reference to any section or subsection of the Code includes reference to any comparable or succeeding provisions of any legislation, that amends, supplements or replaces such section or subsection.

2.6 "Company" means J. C. Penney Corporation, Inc., a Delaware corporation, or any successor corporation.

2.7 "Company-Paid Plan" means the J. C. Penney Corporation, Inc. Group Term Life Insurance Plan, as amended from time to time.

2.8 "Date of Disability", "Disabled", and "Disability" have the meanings set forth in the Company-Paid Plan.

2.9 "ERISA" means the Employee Retirement Income Security Act of 1974, as amended, and the regulations promulgated thereunder. Reference to any section or subsection of ERISA includes reference to any comparable or succeeding provisions of any legislation, that amends, supplements or replaces such section or subsection.

2.10 "Insurer" means the insurance company or companies issuing the Policy or Policies.

2.11 "MSRP Retiree" means a former Associate who retired from a Participating Employer and who is eligible to receive Associate-paid life insurance coverage under the terms of the Supplemental Retirement Program for Management Profit-Sharing Associates of J.C. Penney Corporation, Inc., as amended from time to time. The term "MSRP Retiree" also includes any additional former Associate so designated from time to time in the discretion of the Board of Directors of the Participating Employer or the Benefits Administration Committee or the HR Committee of the Company in accordance with the provisions of the Supplemental Retirement Program.

2.12 "Participant" means an MSRP Retiree who has satisfied the eligibility requirements of Article 3, has purchased life insurance coverage under the terms of the Plan, and whose coverage under the Plan has not terminated.

2.13 "Participating Employer" means the Company and any subsidiary or affiliate of the Company which is designated as a Participating Employer under the Plan by the HR Committee, excluding, however, any division of the Company or of a subsidiary or affiliate that is designated by the HR Committee as ineligible to participate in the Plan. Appendix I contains a list of the Participating Employers currently participating in the Plan that have adopted the Plan pursuant to Article 7.

2.14 "Plan" means the J.C. Penney Corporation, Inc. Supplemental Group Term Life Insurance Plan for Management Profit-Sharing Associates, as set forth herein and as may be amended from time to time.

2.15 "Policy" or "Policies" means the life insurance policies through which Plan benefits are provided, which are incorporated by reference into the Plan.

2.16 "Plan Year" means the period with respect to which the records of the Plan are maintained, which will be the 12-month period beginning on January 1 and ending on December 31.

2.17 "Supplemental Retirement Program" means the Supplemental Retirement Program for Management Profit-Sharing Associates of J. C. Penney Corporation, Inc., as amended from time to time.

ARTICLE 3

PARTICIPATION

3.1 Eligibility For Coverage. An Associate who qualifies as an MSRP Retiree will be eligible to purchase coverage under the Plan, effective upon retirement, provided the MSRP Retiree was a participant in the Associate-Paid Plan immediately prior to retirement, but only if the MSRP Retiree properly completes the enrollment procedures required by the Administrator within 31 days after retirement. If the MSRP Retiree has assigned his term life insurance provided by the Associate-Paid Plan, the assignee may elect the coverage provided by this Section 3.1. No late enrollment procedures are available for MSRP Retirees. Notwithstanding the foregoing, an MSRP Retiree who was receiving coverage under the Associate-Paid or the Company-Paid Plan on account of Disability on the MSRP Retiree's retirement date will not become eligible to purchase coverage under this Plan.

3.2 Termination of Coverage. A Participant's coverage under the Plan will terminate automatically on the earliest to occur of the following: (i) the last day of the month in which the Participant attains age 65; (ii) subject to Article 8, the date on which the Plan is terminated, or amended to terminate coverage with respect to any group or class of MSRP Retirees that includes the Participant; (iii) the date on which the Policy under which the Participant's benefits are provided is cancelled or terminated and not replaced; iv) the last day of the month in which the Participant fails to make any required premium payment; (v) the last day of the month in which the Participant becomes eligible for coverage under the Company-Paid Plan or Associate-Paid Plan as an active Associate; or (vi) the date of the Participant's death. A Participant whose coverage is terminated pursuant to subsection (v) above, shall again become eligible to participate in the Plan on the first day of the month on or after the date he or she ceases to be an active Associate eligible for coverage under the Company-Paid Plan or Associate-Paid Plan.

3.3 Enrollment Procedures. The Administrator may from time to time prescribe enrollment procedures and forms that are consistent with the terms of the Plan.

3.4 Coverage Not Extended by Payment. The duration of a Participant's coverage is determined solely by the terms of the Plan, and coverage which has otherwise terminated will not be extended even if premium payments for the terminated coverage continue to be made and/or processed on behalf of the Participant.

ARTICLE 4

LIFE INSURANCE BENEFITS

4.1 Amount of Life Insurance. An MSRP Retiree may purchase life insurance coverage under the Policies in an amount equal to 100% of the MSRP Retiree's Annual Earnings for Benefits from $1,000 up to $2,000,000. Coverage will be rounded to the next higher $1,000 if it is not already an even multiple of $1,000.

4.2 Evidence of Good Health. To the extent required by the Plan, applicable Policies, the Insurer or the Administrator, Participants will be required to provide evidence of good health satisfactory to the Insurer or Administrator as a condition to coverage.

4.3 Payment of Benefits. Except as provided in 4.7, the Insurer will pay benefits payable under the Plan to the beneficiary or beneficiaries as soon as practicable after receipt by the Insurer of properly submitted claims. Benefits will be paid in a single lump sum payment unless the Participant (or the beneficiary, if applicable) elects a different method of payment offered by the Insurer.

4.4 Designation of Beneficiary. Except as provided in 4.7, a Participant may designate one or more beneficiaries to receive the life insurance benefits under the Plan with respect to coverage on the Participant's life, or may change a prior beneficiary designation, in accordance with procedures specified by the Administrator from time to time. If no beneficiary has been designated under a Policy (or the beneficiary is not alive on the date of the Participant's death), benefits will be paid as provided in the Policy.

4.5 Benefit Limitation. Benefits under the Plan are subject to the terms of the Policies and to applicable state law.

4.6 Recovery of Overpayment. Any amounts paid to any person in excess of the amount to which he is entitled under the Plan will be repaid by that person to the Insurer promptly following receipt by the person of a notice of such excess payments. In the event such repayment is not made, such repayment may be made, at the discretion of the Insurer, by reducing or suspending any future payments due under the Plan to the person and by taking such other or additional action as may be permitted by applicable law.

4.7 Accelerated Payment Option. A Participant who is terminally ill (as hereinafter defined) may elect to receive a prepayment, as an accelerated payment option, up to the lesser of $250,000 or 50% of the applicable life insurance benefit under the Plan. The balance of the life insurance benefit under the Plan will be paid to the Participant's beneficiary upon the Participant's death, subject to the terms of the Plan. The accelerated payment option will be paid to the Participant in a lump sum, or in twelve equal monthly installments if the Participant so elects. If the Participant dies before receiving the full amount of the accelerated payment option under this Section, the remainder will be paid to the beneficiary or beneficiaries as part of the balance of the life insurance benefit, subject to the terms of the Plan. For purposes of this Plan, a Participant will be considered to be "terminally ill" if the Participant furnishes to the Insurer satisfactory proof that the Participant's life expectancy is twelve months or less.

4.8 Payment Satisfied Claim. Any payment for the benefit of a Participant, the Participant's estate or the Participant's beneficiary that is made in accordance with the foregoing provisions of this Article or that is made as a settlement to any claim or lawsuit, will, to the extent of the payment, be in full satisfaction of all claims under the Plan against the Participating Employers, the Insurer and the Administrator, any of whom may require such payee, as a condition precedent to such payment, to execute a release acknowledging receipt of such payment. No interest will be paid on any underpayment of benefits or on any benefit payments that have been delayed for any reason, unless required by law.

4.9 No Double Payment. Under no condition will the Plan pay more than one benefit on account of a Participant's death. If a Participant has coverage under the Plan at the time of his or her death under more than one of the Plan's provisions, the Plan will pay only under the one applicable provision with the highest amount of coverage.

4.10 Alienation and Assignment. The interests of the Participants and their beneficiaries under the Plan are not in any way subject to their debts or other obligations, and may be transferred or assigned only to the extent permitted by the applicable Policy or a Qualified Domestic Relations Order.

4.11 Qualified Domestic Relations Orders. To the extent required by Section 609 of ERISA with respect to life insurance plans, benefits available under the Plan will be provided in accordance with the applicable requirements of any Qualified Domestic Relations Order (as defined in Section 609 of ERISA). The Administrator will establish procedures, consistent with this Section, to determine whether an order is a Qualified Domestic Relations Order and to administer the provision of Plan benefits under such a qualified order.

ARTICLE 5

FUNDING OF BENEFITS

5.1 Associate-Paid Premiums. The Participants will pay all or a portion of the cost of premiums with respect to benefits under the Policies as determined by the Administrator in its discretion from time to time. The Administrator will have full and exclusive power to determine the cost of coverage to be paid by each Participant, and to adjust the required cost from time to time. In establishing the amount of required Participant cost, the Administrator may rely on tables, appraisals, valuations, projections, opinions, and reports furnished by agents employed or engaged by the Administrator or the Company, and may take into account the projected or anticipated costs and expenses relating to the Plan, including without limitation administrative costs and insurance premiums. Premiums required of Participants will be treated as fixed premium payments, and neither the Participants nor any beneficiary will be entitled to any dividend, credit, refund, or rebate under any Policy on account of actual claims experience, investment performance, or similar factors, but all such dividends, credits, refunds, and rebates shall be the sole property of the Company, except to the extent that the aggregate amount of such dividends, credits, refunds, or rebates exceeds the aggregate payments made by the Participating Employers for the employer portion of the cost of premiums under the Policies. The amount of any such excess shall be applied by the Administrator in its discretion from time to time for the benefit of Participants or their beneficiaries.

5.2 Participating Employer Obligations. The Participating Employers will pay the portion, if any, of the cost of premiums with respect to benefits under the Policies as determined by the Administrator in its discretion from time to time. The Participating Employers' obligations under the Plan are limited to the payment of such portion of applicable premiums due under any Policies in force, and no Participant or beneficiary will have any claim or cause of action against any Participating Employer on account of the failure of an Insurer to pay benefits due under the Policies.

5.3 Source of Benefits. Benefits under the Plan will be paid solely from the Policies and only to the extent provided under such Policies. Any payment for the benefit of a Participant that is made in accordance with the terms of the Policies will, to the extent of the payment, be in full satisfaction of all claims under the Plan against the Participating Employers, the Administrator, and the Insurer, any of whom may require such payee, as a condition precedent to such payment, to execute a release acknowledging receipt of such payment.

ARTICLE 6

ADMINISTRATION OF THE PLAN

6.1 General Powers and Duties of the Administrator. The Administrator will have the full power, responsibility, and discretion to administer the Plan and to construe and apply Plan provisions, and will be the named fiduciary with respect to the operation and administration of the Plan, except with respect to the specific responsibilities performed by the Insurer pursuant to the Policies or delegated to the Insurer or another fiduciary pursuant to Section 6.3 or 6.4. The Administrator, and all other persons with discretionary control respecting the operation, administration, control, and/or management of the Plan will perform their duties under the Plan solely in the interests of Participants and their beneficiaries.

6.2 Specific Powers and Duties of the Administrator. The Administrator will administer the Plan and have the full authority and discretion necessary to accomplish that purpose, including without limitation the authority and discretion to: (i) resolve all questions relating to the eligibility of Associates to become or continue as Participants, (ii) engage any administrative, legal, medical, accounting, clerical, or other services it deems appropriate in administering the Plan, (iii) construe and interpret the Plan, supply omissions from, correct deficiencies in and resolve inconsistencies or ambiguities in the language of the Plan, resolve inconsistencies or ambiguities between the provisions of this Plan and the provisions of any Policy, and adopt rules for the administration of the Plan which are not inconsistent with the terms of the Plan document, (iv) compile and maintain all records it determines to be necessary, appropriate, or convenient in connection with the administration of the Plan, and (v) resolve all questions of fact relating to any matter for which it has administrative responsibility.

6.3 Authority of Insurer. The Insurer will be responsible for the initial review, payment, and/or denial of claims for benefits under the Policies. In carrying out its responsibilities under the Policies, the Insurer will have the authority and discretion to (i) determine the amount of benefits, if any, payable to Participants and beneficiaries under the Policies and determine the time and manner in which such benefits are to be paid, (ii) construe and interpret the Policies, and (iii) compile and maintain all records it determines to be necessary, appropriate, or convenient in connection with the Policies.

6.4 Allocation of Fiduciary Responsibility. The Administrator from time to time may delegate to any other persons or organizations any of its rights, powers, duties, and responsibilities with respect to the operation and administration of the Plan that are permitted to be delegated under ERISA. Any such allocation or delegation will be reviewed periodically by the Administrator, and will be terminable upon such notice as the Administrator in its discretion deems reasonable and proper under the circumstances. Whenever the Administrator delegates discretionary authority respecting the administration of the Plan to another person or organization, the Administrator's responsibility with respect to such delegation is limited to the selection of the person to whom authority is delegated and the periodic review of such person's performance and compliance with applicable law and regulations. Any breach of fiduciary responsibility by the person to whom authority has been delegated which is not proximately caused by the Administrator's failure to properly select or supervise, and in which breach the Administrator does not otherwise participate, will not be considered a breach by the Administrator.

6.5 Information to be Submitted to the Administrator. To enable the Administrator to perform its functions, each Participating Employer will supply full and timely information to the Administrator on all matters relating to Associates and Participants as the Administrator may require and will maintain such other records required by the Administrator to determine the benefits due to Participants under the Plan.

6.6 Expenses and Compensation. The expenses of administering the Plan, including without limitation the expenses of the Administrator properly incurred in the performance of its duties under the Plan, will be paid by the Company. The Administrator will not be compensated by the Plan for services as Administrator.

6.7 Reporting and Disclosure. The Company will be the "administrator" of the Plan as defined in ERISA section 3(16)(A) for purposes of the reporting and disclosure requirements imposed by ERISA and the Code. The Administrator will assist the Company, as requested, in complying with such reporting and disclosure requirements.

6.8 Claims Procedure. A Participant, or an authorized representative of a Participant may file a claim for benefits or eligibility to participate with the Administrator or a person designated by the Administrator, which person will be a named fiduciary under ERISA section 402(a)(2) for purposes of this Section. All claims must be made in writing and signed by the claimant or the claimant's authorized representative. If the claimant does not furnish sufficient information to determine the validity of the claim, the Administrator, the Insurer or other named fiduciary will advise the claimant in writing of any additional information that is required to make a determination.

(a) Eligibility. Each claim for eligibility (unless the eligibility claim arises in the context of a denial of a claim for benefits, in which case the time frames in subpart 6.8(b) apply) will be approved or disapproved by the Administrator, the Insurer or other named fiduciary within 90 days following the receipt of the information necessary to process the claim unless special circumstances require an extension of time for processing, in which case a decision will be rendered as soon as possible but not later than 180 days after receipt of the information necessary to process the claim.

(b) Benefits. Each claim for benefits will be approved or disapproved by the Administrator, the Insurer or other named fiduciary within 45 days of receipt of the initial claim. The 45 day period will be tolled for a maximum of 45 days after the date a written notice is sent to a claimant advising him that additional information is needed to process the claim and make a determination. If information requested is not received within 45 days then the claim will be denied. If the information requested is received the

claim will be processed within the remainder of the 45 day tolled period. In the event the Administrator, the Insurer or other named fiduciary cannot make a determination due to events beyond its control, the claimant will be notified prior to the expiration of the original 45-day period. The extension notice must include the reason for the delay and advise a date when a determination will be made. In no event may an extension period extend beyond 30 days. A notice of extension shall specifically explain the standards on which entitlement to a benefit is based, unresolved issues that prevent a decision on the claim and, if applicable, advise if any additional information is needed to resolve those issues. If during the first 30 day extension it becomes necessary, due to matters beyond the control of the Administrator, the Insurer or other named fiduciary to make a determination on the claim a second 30 day extension is available to the Administrator. Such extension is valid provided notice setting forth the foregoing items is provided to the claimant or the claimant's authorized representative prior to the last day of the first 30-day extension period.

(c) General. In the event a claim for benefits or eligibility to participate is denied in whole or in part, the Administrator, the Insurer or other named fiduciary will notify the claimant in writing of the denial of the claim. Such notice by the Administrator, the Insurer or other named fiduciary will also set forth, in a manner calculated to be understood by the claimant, the specific reason for such denial, the specific Plan provisions on which the denial is based, information related to any medical professional whose judgment was relied upon in making the determination, information related to standards used in making the determination, a description of any additional material or information necessary to perfect the claim with an explanation of why such material or information is necessary, and an explanation of the Plan's appeals procedure as set forth in Section 6.9.

6.9 Appeals Procedure. A claimant may appeal a denial of his claim under the Plan by requesting a review of the decision by the Administrator or a person designated by the Administrator, which person will be a named fiduciary under ERISA section 402(a)(2) for purposes of this Section.

(a) Eligibility. A claimant may appeal a denial of a claim for eligibility by submitting an appeal to the Administrator, or the Administrator's designee, which person will be a named fiduciary under ERISA section 402(a)(2) for purposes of this Section and will have the same authority and discretion as the Administrator with respect to the appeal. An appeal must be submitted in writing within 60 days (unless the denial arises from a denied claim for benefits, in which case the time frames in 6.9(b) apply) after the notice of denial of the claim for eligibility is received and must include all information that would assist in reviewing the denial. The Administrator, the Insurer or other named fiduciary will make a full and fair review of each appeal and any written materials submitted in connection with the appeal. The Administrator, the Insurer or other named fiduciary will act upon each appeal within 60 days after receipt thereof unless special circumstances require an extension of the time for processing, in which case a decision will be rendered as soon as possible but not later than 120 days after the appeal is received.

(b) Benefits. An appeal must be submitted in writing within 180 days after the denial and must (i) request a review of the denied claim for benefits or eligibility under the Plan, (ii) set forth all of the grounds upon which the claimant's request for review is based and any facts, documents, records or other information in support thereof, and (iii) set forth any issues or comments which the claimant deems pertinent to the appeal. The Administrator, the Insurer or other named fiduciary will make a full and fair review of each appeal and any written materials submitted in connection with the appeal without regard to whether such information was submitted or considered in the initial benefit determination. The review on appeal will be conducted by the Administrator, the Insurer or another named fiduciary who is neither the individual who made the adverse benefit determination that is the subject of the appeal, nor the subordinate of such individual. The Administrator, the Insurer or other named fiduciary will act upon each appeal within 45 days after receipt thereof unless the Administrator, the Insurer or other named fiduciary due to special circumstances requires an extension of the time for processing the appeal, in which case a decision will be rendered as soon as possible but not later than 90 days after the appeal was first received. The extension request must be provided to the claimant or the claimant's authorized representative before the expiration of the original 45-day period and indicate the special circumstances requiring the extension of time and the date by which the plan expects to make a determination.

(c) General. The claimant, upon written request to the Administrator, the Insurer or other named fiduciary and during normal business hours, will be given the opportunity to review pertinent documents or materials, provided the Administrator, the Insurer or other named fiduciary finds the requested documents or materials are pertinent to the appeal. On the basis of its review, the Administrator, the Insurer or other named fiduciary will make an independent determination on the claimant's denied claim for eligibility or benefits under the Plan. The decision of the Administrator, the Insurer or other named fiduciary on any claim for benefits will be final and conclusive upon all parties thereto.

In the event the Administrator, the Insurer or other named fiduciary denies an appeal in whole or in part, it will give written or electronic notice of the decision to the claimant or the claimant's authorized representative, which notice will set forth in a manner calculated to be understood by the claimant the specific reasons for such denial, make specific reference to the pertinent Plan provisions on which the decision was based, and provide any other additional information, as applicable, required by 29 Code of Federal Regulations Section 2560.503-1 applicable to a disability plan.

6.10 Uniform Application of Rules and Policies. The Administrator in exercising its discretion granted under any of the provisions of the Plan will do so only in accordance with rules and policies that it establishes, which rules and policies will be uniformly applicable to all Associates, MSRP Retirees and their beneficiaries.

6.11 Reliance on Tables, etc. The Administrator is entitled to rely upon all tables, valuations, certificates, and reports furnished by any duly appointed actuary, upon all certificates and reports made by any duly appointed independent qualified public accountant and upon all opinions given by legal counsel. The Administrator will be fully protected in respect of any action taken or suffered by the Administrator in good faith reliance upon all such tables, valuations, certificates, reports, opinions, or other advice. The Administrator is also entitled to rely upon any data or information furnished by a Participating Employer or by an Associate, MSRP Retiree, or beneficiary as to the age or Annual Earnings for Benefits of any person, or as to any other information pertinent to any calculation or determination to be made under the provisions of the Plan, and, as a condition to payment of any benefit under the Plan, may request an Associate, MSRP Retiree, or beneficiary to furnish such information as the Administrator deems necessary or desirable in administering the Plan. If an Associate, MSRP Retiree, or beneficiary does not provide accurate information in connection with enrollment or coverage under the Plan, the Administrator may, in its discretion, delay or deny the affected coverage. If any relevant facts regarding an Associate, MSRP Retiree, or beneficiary are inaccurate or misstated, the Administrator may make an equitable adjustment of contributions, and the true facts will be used by the Administrator to determine whether, and in what amount, coverage is in effect.

6.12 Records and Reports. The Administrator and Claims Administrator(s) will maintain adequate records of all of their proceedings and acts and all such books of account, records, and other data as may be necessary for administration of the Plan. The Administrator and Claims Administrator(s) will make available to each Participant upon his request such of the Plan's records as pertain to him for examination at reasonable times during normal business hours in accordance with the Claims Administrator's confidentiality procedures.

6.13 Availability of Plan Information and Documents. Any Participant having a question concerning the administration of the Plan or the Participant's eligibility for participation in the Plan or for the payment of benefits under the Plan may contact the Administrator and request a copy of the Plan document. Each Participating Employer will keep copies of this Plan document, exhibits and amendments hereto, and any related documents on file in its administrative offices, and such documents will be available for review by a Participant or a designated representative of the Participant at any reasonable time during regular business hours. Reasonable copying charges for such documents will be paid by the requesting party.

ARTICLE 7

ADOPTION BY PARTICIPATING EMPLOYERS

7.1 Adoption Procedure. Any subsidiary or affiliate of the Company may become a Participating Employer under the Plan provided that (i) the HR Committee approves the adoption of the Plan by the subsidiary or affiliate and designates the subsidiary or affiliate as a Participating Employer in the Plan, and (ii) by appropriate resolutions of the board of directors or other governing body of the subsidiary or affiliate, the subsidiary or affiliate agrees to become a Participating Employer under the Plan and also agrees to be bound by any other terms and conditions which may be required by the HR Committee or the Administrator, provided that such terms and conditions are not inconsistent with the purposes of the Plan. A Participating Employer may withdraw from participation in the Plan, subject to approval by the Administrator, by providing written notice to the Administrator that withdrawal has been approved by the board of directors or other governing body of the Participating Employer. The HR Committee may at any time remove a Participating Employer from participation in the Plan by providing written notice to the Participating Employer that the HR Committee has approved removal. The HR Committee will act in accordance with this Article pursuant to unanimous written consent or by majority vote at a meeting.

ARTICLE 8

AMENDMENT AND TERMINATION

8.1 Right to Suspend Premium Payments. It is the expectation of the Participating Employers that they will continue to pay any employer portion of premium payments as determined under Article 5, but they do not assume an individual or collective contractual obligation to do so, and the right is reserved by the HR Committee at any time to reduce, suspend, or discontinue any such premium payments.

8.2 Right to Amend. The right to amend the Plan at any time in any respect is reserved to the Company acting through the HR Committee or the Administrator as provided herein, without prior notice to or approval by Participants, beneficiaries or any Participating Employer, provided that no amendment will adversely affect individuals who are Participants on the effective date of the amendment unless otherwise required to comply with applicable law. The HR Committee may amend the Plan at any time and from time to time to the extent it may deem advisable or appropriate. In addition, the Administrator may amend the Plan at any time and from time to time to the extent the Administrator deems it advisable or appropriate, provided that such amendment would not significantly increase the cost of the Plan to the Participating Employers. The right to amend includes: (a) the right to change, limit or eliminate coverage or benefits, and (b) the right to limit Participating Employer contributions made to the Plan on behalf of Participants and to require Participants to pay the balance of any Plan costs.

8.3 Amendment Procedure. Each amendment to the Plan by the HR Committee or the Administrator will be made only pursuant to unanimous written consent or by majority vote at a meeting, and a copy of any amendment adopted by the HR Committee will be delivered to the Administrator. Upon such action by the HR Committee or the Administrator, the Plan will be deemed amended as of the date specified as the effective date by such action or in the instrument of amendment. The effective date of any amendment may be before, on, or after the date of such action of the HR Committee or the Administrator.

8.4 Termination of the Plan. The Participating Employers expect to continue the Plan indefinitely, but they do not assume an individual or collective contractual obligation to do so, and the right is reserved to the Company, acting through the HR Committee, to terminate the Plan or to completely discontinue premium payments with respect to any Policy at any time, without prior notice to or approval by Participants or beneficiaries. Notwithstanding the foregoing, in no event will termination of the Plan adversely affect individuals who are Participants on the effective date of the amendment unless otherwise required to comply with applicable law. The authority of the HR Committee will be exercised by unanimous written consent or by majority vote at a meeting.

ARTICLE 9

CONVERSION RIGHTS

9.1 Conversion to Individual Policy. A Participant whose coverage under the Plan terminates under Section 3.2 will have the right to convert his or her group term life insurance coverage to an individual policy to the extent, and only to the extent, permitted under the group Policy applicable to the Participant. Any election to convert to individual coverage must be made within 31 days after the Participant's coverage under the Plan terminates, and must be made in accordance with all requirements specified in such Policy.

9.2 Death During Conversion Period. If a Participant dies within 31 days after coverage has terminated under the Plan and while the Participant is entitled to convert his or her group coverage to an individual policy under the terms of the applicable Policy, the Participant's beneficiary will be entitled to a death benefit from the Policy in an amount equal to the amount of term life insurance the Participant was entitled to convert immediately prior to death. Any benefit payable during the conversion period will be paid solely from the Policy and will not constitute a benefit under the Plan.

ARTICLE 10

MISCELLANEOUS PROVISIONS

10.1 No Right of Employment. Participation in the Plan will not give any Associate or Participant the right to be retained in the employment of the Company.

10.2 Gender and Number. Whenever used in this Plan, unless the context indicates otherwise, words in the masculine gender will include the feminine gender, and words in the plural will include the singular, and the singular will include the plural.

10.3 Notices. Any notice or document required to be given to a Participant or beneficiary will be properly given if (i) mailed, postage prepaid, to the Participant or beneficiary at his last known address as set forth in the Participating Employer's records, or (ii) in the case of a Participant who is an Associate, distributed to the Associate at his or her place of employment, or (iii) sent electronically to any Covered Associate or beneficiary in compliance with 29 CFR Section 2520.104b-1(c). All notices required to be given or any document required to be filed with the Administrator will be properly given or filed if mailed postage prepaid, certified mail, to the Administrator or Insurer at the addresses as set forth in the Summary Plan Descriptions of the Plan furnished to Participants from time to time.

10.4 Section Headings. The section headings or head notes are inserted only as a matter of convenience and for reference and in no way define, limit, or describe the scope or intent of the Plan.

10.5 Officers. Any reference to a particular officer of the Company will also refer to the functional equivalent of such officer in the event the title or responsibilities of that office change.

10.6 Consent To Terms Of Plan. By enrolling for coverage or accepting benefits under the Plan, a Participant agrees that the terms and conditions of the Plan will be binding on the Participant or anyone claiming through a Participant.

10.7 Severable Plan Provisions. If any provision of the Plan, including instruments incorporated in the Plan by reference, shall be held illegal, invalid, or disqualifying for any reason, including, but not limited to, any inconsistency in the text of the Plan with applicable law or regulation, said illegality, invalidity, or inconsistency shall not affect the remaining provisions of the Plan, such illegal, invalid, disqualifying, or inconsistent provision shall be fully severed from the contents of the Plan, and the Plan shall be construed and enforced as if such illegal, invalid, disqualifying, or inconsistent provision had not been included in the Plan.

10.8 Oral Representations. The Plan governs, controls, and supersedes any and all representations, either oral or written, made by any employee or agent, or other

representative of the Company or any Participating Employer, and no other agreements, statements, or assertion relating to the subject matter of this Plan shall be valid or enforceable.

10.9 Governing Law. Except to the extent that the Plan may be subject to the provisions of ERISA, the Plan will be construed and enforced according to the laws of the State of Texas, without giving effect to the conflict of laws principles thereof. Except as otherwise required by ERISA, every right of action by a Participant, former Participant, or beneficiary with respect to the Plan will be barred after the expiration of three years from the date of termination of employment or the date of receipt of the notice of denial of a claim for benefits, if earlier. In the event ERISA's limitation on legal action does not apply, the laws of the State of Texas with respect to the limitations of legal actions will apply and the cause of action must be brought no later than four years after the date the action accrues.

J.C. PENNEY CORPORATION, INC.

APPENDIX I

Participating Employers
As of January 1, 2003

J.C. Penney Corporation, Inc.

JCP Publications Corp.
(Previously JCP Media Corporation)
(from and after April 3, 1996)

JCP Overseas Services, Inc.
(from and after July 1, 1996)

JCPenney Puerto Rico, Inc.

JCP Logistics L. P.
(from and after February 1, 1999)

JCP Media L.P.
(from and after February 1, 1999)

JCP Procurement L.P.
(from and after February 1, 1999)

J.C. Penney Private Brands, Inc.
(from and after January 1, 2000)

JCP Ecommerce L.P.
(from and after January 1, 2001)

Exhibit 12(a)

J. C. Penney Company, Inc.
and Consolidated Subsidiaries
Computation of Ratios of Available Income to Combined Fixed Charges
and Preferred Stock Dividend Requirement

<TABLE>
<CAPTION>

($ in Millions)	52 Weeks Ended 01/25/03	52 Weeks Ended 01/26/02	52 Weeks Ended 01/27/01	52 Weeks Ended 01/29/00	52 Weeks Ended 01/30/99
<S>	<C>	<C>	<C>	<C>	<C>
Income/(loss) from continuing operations (before income taxes, before capitalized interest, but after preferred stock dividend)	$ 557	$ 172	$ (920)	$ 237	$ 674
Fixed charges					
Interest (including capitalized interest) on:					
Operating leases	349	305	320	272	225
Short-term debt	4	--	13	137	106
Long-term debt	403	426	464	538	557
Capital leases	4	5	3	2	4
Other, net	19	8	2	(5)	1
Total fixed charges	779	744	802	944	893
Preferred stock dividend, before taxes	27	29	33	36	37
Combined fixed charges and preferred stock dividend requirement	806	773	835	980	930
Total available income/(loss)	$ 1,363	$ 945	$ (85)	$ 1,217	$ 1,604
Ratio of available income to combined fixed charges and preferred stock dividend requirement	1.7	1.2	-0.1 *	1.2	1.7

* Income from continuing operations (before income taxes and capitalized interest, but after preferred stock dividend) was not sufficient to cover combined fixed charges and preferred stock by $920 million.
</TABLE>

Exhibit 12(b)

J. C. Penney Company, Inc.
and Consolidated Subsidiaries
Computation of Ratios of Available Income to Fixed Charges

<TABLE>
<CAPTION>

($ in Millions)	52 Weeks Ended 01/25/03	52 Weeks Ended 01/26/02	52 Weeks Ended 01/27/01	52 Weeks Ended 01/29/00	52 Weeks Ended 01/30/99
<S>	<C>	<C>	<C>	<C>	<C>
Income/(loss) from continuing operations (before income taxes and capitalized interest)	$ 584	$ 201	$ (887)	$ 273	$ 711
Fixed charges:					
Interest (including capitalized interest) on:					
Operating leases	349	305	320	272	225
Short-term debt	4	-	13	137	106
Long-term debt	403	426	464	538	557
Capital leases	4	5	3	2	4
Other, net	19	8	2	(5)	1
Total fixed charges	779	744	802	944	893
Total available income/(loss)	$ 1,363	$ 945	$ (85)	$ 1,217	$ 1,604
Ratio of available income to combined fixed charges	1.7	1.3	-0.1 *	1.3	1.8

* Income from continuing operations (before income taxes and capitalized interest) was not sufficient to cover fixed charges by $887 million.
</TABLE>

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the accompanying consolidated financial statements and notes thereto and the five-year financial summary.

HOLDING COMPANY

Effective January 27, 2002, J. C. Penney Company, Inc. changed its corporate structure to a holding company format. As part of this structure, J. C. Penney Company, Inc. changed its name to J. C. Penney Corporation, Inc. (JCP) and became a wholly owned subsidiary of a newly formed affiliated holding company (Holding Company). The Holding Company assumed the name J. C. Penney Company, Inc. All outstanding shares of common and preferred stock were automatically converted into the identical number and type of shares in the Holding Company. Stockholders' ownership interests in the business did not change as a result of the new structure. Shares of the Company remain publicly traded under the same symbol (JCP) on the New York Stock Exchange. The Holding Company is a co-obligor (or guarantor, as appropriate) regarding the payment of principal and interest on JCP's outstanding debt securities. The Holding Company and its consolidated subsidiaries, including JCP, are collectively referred to in this Annual Report as "Company" or "JCPenney," unless indicated otherwise. See Note 1 on page 22 for further discussion.

CRITICAL ACCOUNTING POLICIES

The application of accounting policies necessarily involves judgment and, in certain instances, the use of estimates and assumptions. Different amounts could be reported under different conditions or using different assumptions. Management believes that the accounting policies that are the most critical to understanding and evaluating the Company's reported results relate to: inventory valuation under the retail method of accounting; revenue recognition; valuation of long-lived and intangible assets, including goodwill; estimation of valuation allowances and reserves, specifically related to closed stores, insurance, income taxes, litigation and environmental contingencies; and pension accounting.

INVENTORY VALUATION UNDER THE RETAIL METHOD:

DEPARTMENT STORES AND CATALOG -- Inventories are valued primarily at the lower of cost (using the last-in, first-out or "LIFO" method) or market determined by the retail method for department store inventory and average cost for catalog inventory. Under the retail method, inventory is segregated into groupings of merchandise having similar characteristics and is stated at its current retail selling value. Inventory retail values are converted to a cost basis by applying specific average cost factors for each grouping of merchandise. Cost factors represent the average cost-to-retail ratio for each merchandise group based on the fiscal year purchase activity for each store location. Accordingly, a significant assumption under retail method accounting is that the inventory in each group of merchandise is similar in terms of its cost-to-retail relationship and has similar gross margin and turnover rates. Management monitors the content of merchandise in these groupings to ensure distortions that would have a material effect on inventory valuation do not occur. The retail method inherently requires management judgment and certain estimates that may significantly impact the ending inventory valuation at cost as well as gross margin. Among others, two of the most significant estimates are permanent markdowns used to clear unproductive or slow-moving inventory and shrinkage.

Permanent markdowns designated for clearance activity are recorded at the point of decision, when the utility of inventory has diminished, versus the point of sale. Factors considered in the determination of permanent markdowns include: current and anticipated demand, customer preferences, age of the merchandise and fashion trends. When a decision is made to permanently mark down merchandise, the resulting gross margin reduction is recognized in the period the markdown is recorded.

Shrinkage is estimated as a percentage of sales for the period from the last inventory date to the end of the fiscal year. Such estimates are based on experience and the shrinkage results from the last physical inventory. Physical inventories are taken at least annually for all department stores, warehouses and catalog fulfillment centers on a staggered basis throughout the year, and inventory records are adjusted accordingly. The shrinkage rate from the most recent physical inventory, in combination with historical experience, is used as the standard for the shrinkage accrual going forward.

In 2002, the Company began to measure price changes, inflation/deflation rates for LIFO purposes, on the basis of vendor cost rather than retail prices. See Note 1 on pages 24-25 for a further description of the change and its impact on the Company.

ECKERD -- Pharmaceutical merchandise, as well as general merchandise stored in warehouses, is valued under the cost method of accounting and is stated at the lower of LIFO cost or market. For the remainder of the inventory representing general merchandise (front end) in Eckerd drugstore locations, inventory is valued under a modified retail method. Under this method, inventory is valued based on the cost-to-retail relationship of physical inventories (descriptive counts) taken in selected stores. Descriptive counts gather detailed front-end merchandise pricing information at both current retail and cost for homogeneous groupings of merchandise. The calculated cost-to-retail relationship is then used to cost physical inventories taken in drugstores throughout the year. In order to reflect updated cost-to-retail ratios based on current pricing data, descriptive counts are conducted twice a year. The selection of stores and merchandise groupings for descriptive counts is carefully reviewed by management to ensure a fair representation across all stores.

Similar to Department Stores and Catalog, inventory values at Eckerd are also impacted by actual shrinkage at the time of physical inventory, as well as estimated shrinkage from the inventory date to the end of the fiscal year. Eckerd conducts physical

inventories at least annually in each of its drugstores and at least semi-annually in warehouses. Shrinkage is calculated as a percentage of sales at each inventory date and the estimated shrinkage accrual rate between physical inventories is based on actual experience. Eckerd's shrinkage results in 2001 stabilized and returned to more normal historical rates following the higher shrinkage levels experienced in the prior three years, 1998 to 2000, during which significant integration activities occurred to consolidate several drugstore formats. In 2002, shrinkage results continued to improve, and over the past two years have benefited gross margin by approximately 80 basis points.

REVENUE RECOGNITION:

The Company recognizes revenue from merchandise and service sales in its retail stores at the point of sale or service. Revenues for catalog and internet sales are recognized at the time of shipment. Commissions earned on sales generated by licensed departments are included as a component of retail sales. For catalog orders shipped to department stores for pickup by customers, the Company changed its policy in January 2002 to charge the customer and record the sale when the order is shipped. Previously, revenue was recorded when the customer picked up and paid for the merchandise.

Sales returns are not significant for retail stores due to the relatively short time frame in which returns are typically made and the visibility of the merchandise to the customer. For catalog, however, the return period is longer and return rates higher due to the nature of the catalog business. The January 2002 changes in catalog payment and shipping policies have led to lower return rates. The Company records an allowance for estimated returns, based on the returns policy in place and historical experience. The majority of the allowance relates to estimated catalog returns and is considerably lower than last year. While returns have historically been within expectations and the recorded allowance has been adequate, management reviews actual return experience periodically and adjusts the allowance, as appropriate.

VALUATION OF LONG-LIVED AND INTANGIBLE ASSETS, INCLUDING GOODWILL:

Management evaluates the recoverability of long-lived assets, identified intangibles and goodwill, annually and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The evaluation is done at the lowest level of cash flows, which is typically at the individual store level. Cash flows expected to be generated by the related assets are estimated based on updated projections. If the evaluation indicates that the carrying amount of the asset may not be recoverable, the potential impairment is measured based on a projected discounted cash flow method using a discount rate that is considered to be commensurate with the risk inherent in the Company's current business model. If different assumptions were made or different market conditions were present, any estimated potential impairment amounts could be different.

As of the beginning of 2002, Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets," and SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," became effective. See discussion of the impact on results of the Company under Note 1 on pages 25-26.

RESERVES AND VALUATION ALLOWANCES:

Based on an overall analysis of store performance and expected trends, management periodically evaluates the closing of underperforming stores. Reserves are established at the time of closure for the present value of any remaining lease obligations (PVOL) net of estimated sublease income, severance and other exit costs, as prescribed by SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." See further discussion in Note 1 on page 26. Two key assumptions in calculating the reserve include the time frame expected to terminate lease agreements and estimations of other related exit costs. If different assumptions were used regarding the timing and potential termination costs, the resulting reserves could vary from recorded amounts. Reserves are reviewed periodically and adjusted when necessary.

The Company records a provision for workers' compensation and general liability risk based on actuarial estimates of claims that have been reported, as well as those incurred but not yet reported, resulting from historical experience and current data. Total estimated claim amounts are discounted using a risk-free rate.

Income taxes are estimated for each jurisdiction in which the Company operates. This involves assessing the current tax exposure together with temporary differences resulting from differing treatment of items for tax and accounting purposes. Any resulting deferred tax assets are evaluated for recoverability based on estimated future taxable income. To the extent that recovery is deemed not likely, a valuation allowance is recorded.

The Company is involved in legal proceedings and governmental inquiries associated with employment, pharmacy business practices and other matters. A reserve has been established based on management's best estimates of the Company's potential liability in these matters. This estimate has been developed in consultation with in-house and outside counsel and is based upon a combination of litigation and settlement strategies. Management does not believe that these proceedings and inquiries, either individually or in the aggregate, will have a material adverse effect on the Company's consolidated financial position or results of operations. See further discussion in Note 19.

Reserves for potential environmental liabilities related to facilities, most of which the Company no longer operates, are adjusted based on consultation with independent engineering firms, the Company's experience and in-house legal counsel, as appropriate. The reserve was increased in 2002 to an amount that the Company believes is adequate to cover estimated potential liabilities.

PENSION:

PENSION ACCOUNTING -- The fundamental components of pension accounting consist of the compensation cost of benefits promised, the interest cost from deferring the payment of those benefits and the results of investing assets to fund the pension benefit obligation. Pension benefits are earned by employees ratably over their

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

service careers; therefore, the income statement effects of pension retirement benefits should follow the same pattern. Accordingly, changes in the pension obligation and the value of pension assets are recognized systematically and gradually as employees render service. Various assumptions are made in determining net periodic pension costs, including the discount rate used to measure the pension obligation and the expected long-term rate of return on pension assets. These assumptions require significant judgment, and the calculation of pension costs is relatively complex. The Company utilizes third parties, including actuarial and investment advisory firms, to help evaluate annually the appropriateness of the expected rate of return, the discount rate and other pension plan assumptions.

In accounting for pension costs, the Company uses fair value, which is the market value of the plan assets as of the annual measurement date, to determine the market-related value of plan assets, which is used in calculating the expected return on assets and gain/loss amortization components of net periodic pension expense. If the Company were to use a calculated value, such as a three or five-year moving average, to determine the market-related value of plan assets and recognize variances from expected results on a delayed basis, the amount of pension expense or income recognized could vary significantly from that recorded under the Company's current methodology. This would have been especially true in 2002, given the significant decline in the global equity markets. The fair value approach, which is the Financial Accounting Standards Board's (FASB's) preferred methodology, required the Company to reflect the decline in the fair value of the plan's assets in 2002. The 2002 and 2003 earnings impact is discussed below.

To develop its expected return on plan assets, the Company considers the mix of investments in the plan, historical actual returns and future estimates of long-term investment returns. The Company's primary pension plan is well diversified with an asset allocation policy that provides for a 70%, 20% and 10% mix of equities (U.S., non-U.S. and private), fixed income (investment grade and high yield) and real estate (private and public), respectively. This allocation provides the pension plan with the appropriate balance of investment return and volatility risk, given the funded nature of the plan, its present and future liability characteristics and its long-term investment horizon. Since the inception of the Company's primary pension plan in 1966, the average annual return has been 9.1%. However, over the past several years, the fair value of pension assets has declined as a result of the poor performance in the global equity markets. The pension surplus, defined as the excess of the fair value of plan assets over the projected benefit obligation, has declined from approximately $1.2 billion in 2000 to approximately $50 million in 2002. Over the past two years alone, the fair value of pension plan assets has declined by approximately $700 million. In 2001, related net periodic pension income contributed $76 million to pre-tax earnings. In contrast, pension expense of $24 million was incurred in 2002. Since inception, the Company's primary pension plan has contributed cumulative pre-tax income of approximately $100 million. This is the result of cumulative pension expense during the 1966-1984 period of $366 million, cumulative pension income during the 1985-2001 period of $488 million, and pension expense in 2002 of $24 million. Given unfavorable returns over the past few years and lower expected future returns for 2003, the Company lowered the expected rate of return to 8.9% from 9.5% to reflect lower expected rates of return among all asset classes. Primarily as a result of asset performance, the Company expects a significant increase in net pension costs, which will incrementally reduce earnings per share (EPS) by approximately $0.25 in 2003 compared to $0.20 in 2002. The sensitivity of the pension expense to a plus or minus one-half of one percent of expected return on assets is an increase or decrease in expense of approximately $0.03 per share.

In 2002, the Company lowered the discount rate used to measure the pension obligation from 7.25% to 7.10%, based on the yield to maturity of a representative portfolio of AA rated corporate bonds as of October 31, 2002, with similar average cash flow durations to the pension liability. This methodology is consistent with guidance in SFAS No. 87, "Employers' Accounting for Pensions," to use the rate currently available on high quality bonds and the subsequent guidance issued by the Securities and Exchange Commission that high quality bonds should be those with at least AA rating by a recognized rating agency. The sensitivity of the pension expense to a plus or minus one-half of one percent of the discount rate is an increase or decrease in expense of approximately $0.05 per share.

PENSION FUNDING -- The Company's funding policy is to maintain a well funded pension plan throughout all business and economic cycles. Maintaining a well funded plan over time provides additional financial flexibility to the Company, including lower pension expense and reduced cash contributions, especially in the event of a decline in the capital markets. In addition, it ensures associates of the plan's and Company's financial ability to continue to provide competitive retirement benefits, which is the purpose of the pension plan, while at the same time being cost effective to the Company. The Company targets to maintain a funded ratio in the range of 110% to 130%, which is the plan's assets as a percent of the actuarial funding liability under the Employee Retirement Income Security Act of 1974 (ERISA).

At October 31, 2002, plan assets of $2.9 billion, which included the current year contribution of $300 million, were approximately 112% of the $2.6 billion ERISA funding liability. Since the pension assets exceeded the accumulated benefit obligation, the Company was not required to reflect a minimum liability adjustment, which would have been charged to equity under SFAS No. 87. At year-end 2001 and 2000, the funded ratio was 126% and 122%, respectively. The decline in the 2002 funded ratio resulted primarily from the declines in the global equity markets, partially offset by the Company's 2002 contribution to the plan mentioned above and further discussed on the following page. The plan's funded position and the Company's financial condition are the principal factors in determining cash contributions on an annual basis.

Since the plan's inception, the Company has contributed $1.1 billion, or approximately $650 million on an after tax basis to the

pension plan. Over this time frame, actual investment return on plan assets has generated a significant portion of the $5 billion in pension plan total value, defined as $2.1 billion in cumulative benefit payments to retired associates plus $2.9 billion in plan assets at year-end 2002. In effect, the Company's cumulative cash contributions over this time frame represent 13% of the plan's total value (i.e., $650 million as a percent of $5 billion). The remainder of the plan's total value has been essentially generated by the actual investment returns since inception. The Company targets to maintain its portion of the pension plan's total value to a level of 20% or less, primarily through its funding policy and asset mix strategy. Targeting the Company's portion of the pension plan's total value at this level is important since cash contributions to the plan utilize capital resources from investors and have an associated cost of capital.

The Company made cash contributions to the primary plan annually during the 1966-1983 period in order to provide an asset base to support the accelerating liability growth in the early years of the plan. Over the 1984-2002 period the Company made cash contributions to the plan in five years (1993-1996 and 2002), and no contributions in the other 14 years due to maintaining a well-funded plan and the actual investment return on plan assets.

The pension plan's ERISA actuarial funding liability at year-end 2002 was characterized by approximately 3% annual growth. Cash benefits paid to retirees were about 6% of plan assets in 2002. This resulted in a total annual liability requirement for the plan of about 9%. The composition of this annual liability requirement reflects the Company's associate demographics in terms of length of service, compensation and age. In contrast, during the 1966-1983 period, or the plan's early years, the liability characteristics of the plan reflected a higher annual liability growth rate and a lower cash benefit payment to retirees.

The pension plan's asset allocation strategy is designed to mitigate this annual liability requirement and result in a cost effective level of pension expense and cash contributions over time to the Company as discussed above. In effect, the plan's asset allocation strategy needs to produce an average return on assets of approximately 9% or higher in order to eliminate cash contributions to the plan on a sustainable long-term basis, given the plan's current annual liability requirement and funded position. This was the case during most of the 1984-2002 period as discussed above. In periods of significant capital market declines, such as 2001 and 2002, the plan's surplus is utilized first to mitigate the annual liability requirement, and then the Company's available cash resources are utilized to restore the plan's funded ratio to a targeted level. As discussed below, this was the case in 2002.

Even with the market declines in recent years, the Company's pension plan remains in an adequately funded position. Although no additional funding was required under ERISA, the Company made a discretionary contribution of $300 million, or $190 million after tax, to its pension plan in October 2002.

While the Company does not expect to be required to make a contribution in 2003 under ERISA, it may decide to do so depending principally on the current and expected funded position of the plan.

DISCONTINUED OPERATIONS

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

DMS was reflected as a discontinued operation in the 2000 Annual Report with an estimated net loss on the sale of $296 million. The transaction closed earlier than anticipated in 2001; therefore, the income from DMS operations was for a shorter time period than originally estimated. As a result, the loss on the sale was adjusted upward by $16 million. This amount was reflected in 2001 as a loss on the sale of discontinued operations.

The Company recorded a $34 million gain in 2002 that is reported as discontinued operations. This gain primarily relates to additional capital loss deductions that the Company is entitled to as a result of a 2002 tax regulation change. The final federal tax liability on the transaction was determined in an agreement between the Company and the Internal Revenue Service.

The Company's financial statements, accompanying notes and other information provided in this Annual Report reflect DMS as a discontinued operation for all periods presented.

Concurrent with the closing, JCP entered into a 15-year strategic licensing and marketing services arrangement with AEGON designed to offer an expanded range of financial and membership services products to JCPenney customers. Over the term of this arrangement, the Company will receive fee income related to the marketing and sale of certain financial products and membership services. Such amounts will be recognized as earned in the Company's financial statements.

CONSOLIDATED RESULTS OF OPERATIONS

The following discussion and analysis, consistent with all other financial data throughout this Annual Report, focuses on the results of operations and financial condition from the Company's continuing operations.

<Table>
<Caption>

($ in millions, except EPS)	2002	2001	2000
<S>	<C>	<C>	<C>
SEGMENT OPERATING PROFIT/(LOSS)			
Department Stores and Catalog	$ 695	$ 548	$ 254
Eckerd Drugstores	412	208	(76)
Total segments	1,107	756	178

Other unallocated	(93)	(46)	(515)
Net interest expense	(388)	(386)	(427)
Acquisition amortization	(42)	(121)	(122)
Income/(loss) from continuing operations before income taxes	584	203	(886)
Income taxes	213	89	(318)
INCOME/(LOSS) FROM CONTINUING OPERATIONS	$ 371	$ 114	$ (568)
EARNINGS/(LOSS) PER SHARE FROM CONTINUING OPERATIONS	$ 1.25	$ 0.32	$ (2.29)

</Table>

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Income from continuing operations in 2002 totaled $371 million, or $1.25 per share, compared with $114 million, or $0.32 per share in 2001 and a loss from continuing operations of $568 million, or $2.29 per share in 2000. All references to EPS are on a diluted basis. Income from continuing operations improved in 2002 as compared to 2001 and in 2001 as compared to 2000. Year-over-year improvements were the result of sales growth in both department stores and drugstores, higher gross margin in both operating segments and leveraging of Eckerd selling, general and administrative (SG&A) expenses. Improvements are all reflective of strategies implemented to strengthen the operating performance of the businesses. Income from continuing operations in 2002 benefited $72 million, net of tax, or $0.27 per share from the elimination of amortization of goodwill and the Eckerd trade name in compliance with SFAS No. 142, which is discussed in Note 1 on pages 25-26. This increase was partially offset by higher non-cash pension expense of $59 million, net of tax, or $0.20 per share, as discussed on page 6.

Beginning in 2002, the Company no longer reports proforma earnings before the effect of non-comparable items. Therefore, items that are not reflective of normal ongoing operating performance such as asset impairments, the remaining lease obligation for closed stores, involuntary termination costs, other exit costs and other corporate activities, including gains and losses from the sale of real estate partnership interests, are discussed as components of income/(loss) from continuing operations. Management believes discussion of these items is important in assessing the quality of earnings and the level of sustainability and trends going forward.

Included in the Company's results for 2002, 2001 and 2000 were net pre-tax charges of $119 million, $36 million and $751 million, respectively, that management does not consider reflective of normal ongoing operations. In 2002, $105 million of charges were recorded in other unallocated in the consolidated statement of operations, $17 million in Department Stores and Catalog SG&A expenses and a net credit of $3 million in Eckerd SG&A expenses. In 2001, $42 million of charges were included in other unallocated and a $6 million net credit was recorded in Eckerd segment results. In 2000, net charges of $543 million, $92 million and $116 million were recorded in other unallocated, Department Stores and Catalog segment results and Eckerd Drugstore segment results, respectively. These items are discussed in more detail in segment operating results that follow, other unallocated on page 11 and Note 16.

DEPARTMENT STORES AND CATALOG OPERATING RESULTS

<Table>
<Caption>

($ in millions)	2002	2001	2000
<S>	<C>	<C>	<C>

	2002	2001	2000
Retail sales, net	$ 17,704	$ 18,157	$ 18,758
FIFO gross margin	6,361	6,093	5,978
LIFO (charge)/credit	(6)	9	(14)
LIFO gross margin	6,355	6,102	5,964
SG&A expenses	(5,660)	(5,554)	(5,710)
Segment operating profit	$ 695	$ 548	$ 254
Sales percent increase/ (decrease):			
Total department stores	1.9%	1.5%	(2.9)%
Comparable stores(1)	2.6%	3.3%	(2.4)%
Catalog	(22.0)%	(19.7)%	(2.7)%
Ratios as a percent of sales:			
FIFO gross margin	35.9%	33.6%	31.9%
LIFO gross margin	35.9%	33.6%	31.8%
SG&A expenses	32.0%	30.6%	30.4%
LIFO segment operating profit	3.9%	3.0%	1.4%

</Table>

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(1) Comparable store sales include the sales of stores after having been open for 12 consecutive fiscal months. Stores become comparable on the first day of the 13th fiscal month.

2002 COMPARED WITH 2001. Segment operating profit of $695 million in 2002 increased 90 basis points to 3.9% of sales, from $548 million last year. Improved gross margin, benefiting from the centralized merchandising process and catalog inventory management, was the primary contributor to the increase.

Comparable department store sales increased 2.6% over last year, exceeding the Company's plan, while total department store sales increased 1.9% over last year to $15.1 billion. Sales, which benefited from a powerful marketing program, were strong across the country and in most merchandise divisions. Sales gains were led by Home, Jewelry and Apparel. Specific categories performing exceptionally well were bedding and bath, housewares, window coverings, diamonds, men's and misses sportswear, and boys' clothing. Sales were soft in dresses, which experienced lower demand across the industry, shoes, furniture and cosmetics. In January 2003, the Company announced it will expand and upgrade its women's accessories business, particularly handbags, fashion jewelry and fragrance collections. The Company will discontinue most color and treatment lines in department stores and will end its alliance with Avon in 2003. Total department store sales include sales from the Company's international stores (Brazil, Mexico and Puerto Rico), which, at $499 million, were flat with last year. Catalog sales of $2.6 billion represented a 22% decline from last year. In 2002, catalog was impacted by planned lower page counts, lower circulation of catalog books, previously discussed changes to payment policies and fewer outlet stores. Internet sales of $381 million, which are included with catalog, increased 17.8% from last year.

LIFO gross margin for 2002 improved $253 million, or 230 basis points as a percent of sales, over last year. Improvement

continues to be the result of better merchandise offerings and integration of merchandise and marketing plans, as well as benefits from the centralized merchandising model. Benefits of the new model include larger order quantities, which contribute to lower costs; more timely selection of merchandise; better supplier involvement from planning stages through sale of the merchandise and more efficient delivery of merchandise to individual stores. Inventory management, specifically lower levels of catalog liquidation merchandise, also contributed to the improvement. This year's $6 million LIFO charge resulted primarily from the decline of higher cost inventory layers in certain categories of merchandise. Catalog's reduced levels of inventory drove the declines. Last year's $9 million LIFO credit resulted primarily from higher initial markup. As discussed in Note 1 on pages 24-25, a change was made in 2002 to the LIFO calculation to measure inflation based on supplier cost, rather than retail values. The Company determined that supplier cost would be a more preferable measure than retail, which is subject to pricing strategies.

SG&A expenses increased 1.9% in 2002 due primarily to higher planned advertising, transition costs for the new store support center (SSC) distribution network and higher non-cash pension expense. The new SSC network for department stores is key to the Company's centralization initiative. By the end of 2002, 10 of the planned 13 SSCs were in operation. The remaining three SSCs are scheduled to be up and running by mid-2003. The transition to SSCs has been consistent with the Company's plan in both timing and costs. Once this new distribution process matures, the Company expects to attain benefits through operational efficiencies and the improved flow of merchandise. SG&A also includes $17 million primarily associated with the severance for employees impacted by the transition to SSCs and catalog distribution facilities that will be closed in 2003. Partially offsetting these increases were reductions associated with reduced store labor hours, principally from the conversion to centralized checkouts in the stores, progress toward the elimination of in-store receiving, catalog expense management and centralized store expense management. Additional reductions to SG&A were the result of further reducing Company contributions toward retiree medical costs. These changes reduced 2002 SG&A expenses by approximately $27 million. Annualized savings are expected to continue at the 2002 level. In addition, SG&A included discretionary contributions to the Company's savings plan of $20 million and $48 million for 2002 and 2001, respectively, to reflect a Company match at more competitive levels. The additional 2002 contribution, along with the standard match, was funded in early 2003 with 2.4 million newly issued shares of Company common stock.

The Company has completed the second year of a complex five-year turnaround plan. As part of the plan, management has implemented a centralized merchandising model and has made progress toward rolling out a new merchandise distribution network. Steps have been taken to improve merchandise offerings and enhance systems to provide better inventory data and more visibility into merchandise selling patterns. In addition, the Company has made changes to catalog processes and policies to gain efficiencies and improve profitability. The Company continued to make key external hires, adding individuals experienced in a centralized operating environment. The profitability of Department Stores and Catalog is impacted by the customer's response to merchandise offerings, as well as competitive conditions, the effects of the current economic climate and consumer confidence.

2001 COMPARED WITH 2000. Segment operating profit of $548 million in 2001 more than doubled to 3% of sales, from the prior year's $254 million, primarily from improved gross margins in department stores and good inventory management and expense control in the catalog operation.

Total department store sales of $14.8 billion increased 1.5% for the year, while sales in comparable department stores increased 3.3%. The largest sales increases were in the Home Division, led by the expanded housewares department and followed by bed and bath. Total department stores include sales in the Company's international stores of $498 million in 2001, and $547 million in 2000, a decrease of 9.0%. The decrease was primarily the result of the fluctuation of the Brazilian currency translated into U.S. dollars. Catalog sales were $3.4 billion in 2001 compared to $4.2 billion in 2000, a decline of approximately 20%. Sales declined with the elimination of several specialty catalogs and promotional marketing programs that had generated unprofitable sales. Internet sales, which are included with catalog, increased to $324 million from $294 million in 2000.

LIFO gross margin for 2001 improved 180 basis points as a percent of sales compared with 2000. Margin improvement was primarily the result of better merchandise assortments, improved inventory productivity and benefits derived from centralized merchandising. In addition, 2000 included $92 million of incremental markdowns on discontinued merchandise as department store assortments were narrowed in conjunction with the centralized merchandising initiative. Gross margin included a LIFO credit of $9 million in 2001 and a LIFO charge of $14 million in 2000.

SG&A expenses improved $156 million or 2.7% compared to the prior year, and were essentially flat as a percent of sales. Contributing to this improvement were lower catalog book and marketing costs, lower order fulfillment and telemarketing costs and a shift from development to maintenance of jcpenney.com. Additionally, in 2001, the Company amended the post-retirement medical and dental plans to further reduce Company contributions. This resulted in a reduction of 2001 SG&A expenses of approximately $11 million. Other contributing factors to the improvement were decreases in salaries and other employee benefit plan expenses. SG&A in 2001 included a $48 million discretionary contribution to the Company's savings plan to reflect a Company match at more competitive levels. This additional contribution, along with the standard match, was funded in early 2002 with 2.9 million shares of Company common stock.

ECKERD DRUGSTORES OPERATING RESULTS

<Table>
<Caption>

($ in millions)	2002	2001	2000
<S>	<C>	<C>	<C>
Retail sales, net	$ 14,643	$ 13,847	$ 13,088
FIFO gross margin	3,439	3,160	2,906
LIFO (charge)	(20)	(47)	(55)
LIFO gross margin	3,419	3,113	2,851
SG&A expenses	(3,007)	(2,905)	(2,927)
Segment operating profit/(loss)	$ 412	$ 208	$ (76)
Sales percent increase:			
Total sales	5.7%	5.8%	5.3%
Comparable stores(1)	5.2%	7.8%	8.5%
Ratios as a percent of sales:			
FIFO gross margin	23.5%	22.8%	22.2%
LIFO gross margin	23.3%	22.5%	21.8%
SG&A expenses	20.5%	21.0%	22.4%
LIFO segment operating profit/(loss)	2.8%	1.5%	(0.6)%

</Table>

(1) Comparable store sales include the sales of stores after having been open at least one full year. Comparable store sales include sales of relocated stores.

2002 COMPARED WITH 2001. Segment operating profit for Eckerd increased 130 basis points as a percent of sales to $412 million in 2002 from $208 million in 2001. 2002 marks the second consecutive year that segment operating profits for Eckerd have improved by more than 100 basis points. This increase is due to comparable drugstore sales gains, gross margin improvements, improved inventory turns and leveraging of SG&A expenses. Comparable drugstore sales grew 5.2%, led by a 7.6% increase in pharmacy sales. General merchandise, or front-end, sales were up slightly, increasing 0.6% over 2001. The new reconfigured drugstore format, which has been rolled out to about 1,500 drugstores, contributed to the sales gains along with more competitive everyday pricing, supported by a more effective marketing program. Pharmacy sales were negatively impacted by approximately 240 basis points from the effects of increased sales of lower priced higher margin generic drugs, the effects of other branded drugs such as Claritin coming off brand, reduced sales of Estrogen, as well as a general slowdown in consumer spending. Additionally, competitor unit openings in markets such as Florida and Houston and a slowdown in tourism have also negatively impacted sales. Pharmacy sales increased to 68.3% of total drugstore sales, up from 66.9% last year. The managed care mix increased 120 basis points to 92.6% of total pharmacy sales compared to 91.4% in 2001. The strongest general merchandise categories were household products, beverages, baby and hygiene products, seasonal items, over-the-counter drugs, food and snacks. Sales were soft in photo processing. Overall, however, Eckerd increased its Express Photo market share.

LIFO gross margin improved 80 basis points to 23.3% of sales due to the continuing shift to more profitable generic drug sales, improved shrinkage trends, good sell through of holiday merchandise, a better product mix and improved procurement practices. Pressure was put on general merchandise margins as a result of a promotional environment and implementing a more competitive everyday pricing throughout the drugstore chain. Included in 2002 gross margin was a LIFO charge of $20 million, primarily due to price inflation on prescription drugs, partially offset by deflation in certain general merchandise categories and declines in inventory levels. The $47 million LIFO charge in 2001 was primarily from price inflation on prescription drugs.

As a percent of sales, SG&A expenses improved by 50 basis points to 20.5% of sales in 2002, in addition to a 140 basis point improvement in 2001. SG&A expenses as a percent of sales continue to improve as a result of efficiencies generated by the reconfigured drugstore format, the elimination of redundancies in back office operations, more efficient distribution and the in-sourcing of information technology, as well as the leverage generated by higher sales. Also included in 2002 SG&A is a net $3 million gain for Eckerd's co-plaintiff position in an antitrust settlement for litigation with manufacturers, partially offset by a reserve established for Eckerd's pharmacy benefit management business.

The Company has just completed the second year of its stated three-year turnaround program for the Eckerd drugstore business. The focus has been on developing a strong management team, including key external hires, enhancing product offerings, implementing competitive pricing for general merchandise and rolling out a reconfiguration program to a new, more productive and efficient drugstore format. The successful continuation of the Eckerd turnaround is dependent on Eckerd's ability to successfully attract and retain customers through various marketing and merchandising programs, to secure suitable new drugstore locations at favorable lease terms, to continue the reconfiguration and remodeling program for drugstores, to attract and retain qualified pharmacists, and to maintain favorable reimbursement rates from managed care organizations, governmental and other third party payors.

2001 COMPARED WITH 2000. Segment operating profit for Eckerd improved 210 basis points as a percent of sales to $208 million in 2001 compared to a loss of $76 million in 2000. The increase in segment operating profit resulted from comparable store sales increases, with higher general merchandise sales, combined with improved SG&A expenses.

Sales reflected increases in transaction volumes and unit sales from reduced pricing, improved marketing and store reconfiguration initiatives. Comparable sales growth for 2001 was led by an 11.7% increase in pharmacy sales, which accounted for 66.9% of total drugstore sales. Pharmacy sales increased in the managed care business, which accounted for 91.4% of pharmacy sales, up from 89.5% in 2000. Comparable general merchandise sales increased 1.0% for the year, despite reducing prices on 5,000 items by approximately 6% and implementing temporary low pricing on 1,000 items. The strongest general merchandise categories were cosmetics and skin care, baby and hygiene products, household products, candy, food and snacks, including beverages. The store reconfiguration program, which represents a new store layout, was rolled out to approximately 700 drugstores in 2001. At the end of 2001, approximately 25% of all drugstores were operating in the new format.

LIFO gross margin increased 70 basis points as a percent of sales, reflecting a better product mix, higher generic dispensing rates in pharmacy and better control over shrinkage, despite implementation of more competitive pricing. In addition, gross margin for 2000 included inventory related charges of $104 million, which represented incremental markdowns on discontinued merchandise in order to reposition the merchandise mix and to liquidate merchandise under the store closing plan. Gross margin included LIFO charges of $47 million in 2001 and $55 million in 2000. LIFO charges in both years primarily reflect price inflation on prescription drugs.

SG&A expenses improved by 140 basis points as a percentage of sales, resulting primarily from an emphasis on cost management and the leverage of increased sales. 2001 SG&A expenses were lower in the following areas: information technology from bringing the function back in-house, net advertising and pension costs because Eckerd ceased participation in the JCPenney pension plan. Included in SG&A for 2001 was an $11 million gain for pension curtailment and $5 million in transition costs related to the in-sourcing of information technology. In 2000, SG&A included $12 million of store closing activity costs.

OTHER UNALLOCATED

Other unallocated of $93 million, $46 million and $515 million for 2002, 2001 and 2000, respectively, consists of real estate activities, investment transactions, asset impairments, unit closing costs, which include remaining lease obligations, and other items that are related to corporate initiatives or activities, which are not allocated to an operating segment but are included in total Company operating results.

Certain charges or credits recorded in other unallocated, such as asset impairments, unit closings, gains on sale of real estate partnership interests, and centralized merchandising process (ACT) costs, are not reflective of normal ongoing operations. These net charges were $105 million, $42 million and $543 million in 2002, 2001 and 2000, respectively. Net charges are summarized below and discussed in more detail in Note 16.

In 2002, charges of $105 million related primarily to asset impairments and lease obligations for certain department stores in the United States and Mexico and certain catalog and other facilities. Impairments are the result of the Company's on-going process to evaluate the productivity of its asset base, as described under "Valuation of Long-Lived and Intangible Assets, including Goodwill" on page 5.

Net charges of $42 million in 2001 consisted of $63 million of asset impairments and unit closing costs for catalog store closings, underperforming department stores, outside stockrooms, third party fulfillment operations and adjustments made to prior period restructuring reserves, $36 million of ACT costs, and $57 million of real estate gains on the sale of two partnership interests.

In 2000, charges of $543 million were comprised of $488 million related to asset impairments, PVOL and other unit closing costs, and $55 million of ACT costs. The net charge of $488 million for asset impairments, PVOL and other unit closing costs consisted of $206 million of department store closings; $111 million of drugstore closings; $91 million of asset impairments for department stores; drugstores and a non-strategic business investment; $84 million related to contract cancellations; $35 million of headcount reductions; a $13 million gain on the sale of assets; and a $26 million net credit for adjustments related to prior period restructuring reserves and other.

NET INTEREST EXPENSE

Net interest expense totaled $388 million, $386 million and $427 million in 2002, 2001 and 2000, respectively. The slight increase in 2002 is related to the amortization of fees on the new credit facility and lower returns on short-term investments, partially offset by lower expense from reduced borrowing levels. Interest expense declined in 2001 as a result of improved cash balances and the declines in average debt outstanding. Long-term debt maturities totaled approximately $920 million and $250 million in 2002 and 2001, respectively.

INCOME TAXES

The overall effective tax rates were 36.5%, 43.7% and (35.9%) for 2002, 2001 and 2000, respectively. The lower rate in 2002 is due to recent changes in tax law related to the deductibility of dividends paid to the Company's savings plan and effects of adopting SFAS No. 142 (amortization of goodwill) discussed in Note 1 on pages 25-26. In 2001, the tax rate increased due to a higher percentage of non-deductible permanent book/tax differences, principally goodwill, relative to income than in prior years. In 2000, due to the loss from continuing operations, certain tax planning benefits were not utilized, resulting in a lower tax benefit. Losses that resulted from these benefits have been carried forward to future years. Based on the short time periods for carryforwards in certain states, valuation allowances of $97 million and $85 million in 2002 and 2001, respectively, have been established for those benefits not expected to be realized.

FINANCIAL CONDITION

LIQUIDITY AND CAPITAL RESOURCES

To support the Company's previously stated turnaround initiatives, in 2001 management developed a long-term financing strategy to strengthen the Company's liquidity position. The primary goal of the Company's strategy is to ensure financial flexibility and access to capital over the turnaround timeframe. This will allow adequate time to restore the profitability of the Company's businesses to competitive levels and to increase capital spending levels to fund both future growth at Eckerd and to update the infrastructure of Department Stores and Catalog.

The Company's financial condition and liquidity continued to strengthen during 2002 and now provides increased resources to accomplish its business objectives. Cash flow from operating activities was $1.3 billion in 2002 compared with $0.9 billion in 2001 and $1.5 billion in 2000. Free cash flow, defined as cash flow from operating activities less dividends and capital expenditures net of proceeds from the sale of assets, exceeded $500 million for the year compared to approximately $200 million of free cash flow generated in 2001. Free cash flow for 2002 exceeded plan primarily as a

result of better operating performance, inventory and working capital management, and lower than planned capital expenditures.

At year-end 2002, cash and short-term investments were approximately $2.5 billion, representing approximately 46% of the $5.4 billion of outstanding long-term debt including $200 million for the securitization of Eckerd managed care receivables. The Company's liquidity was strengthened, including paying off approximately $920 million of long-term debt that matured during 2002 and contributing $300 million ($190 million after tax) to the Company's pension plan in the fourth quarter of 2002. In October 2002, the Company's strong liquidity position was recognized by Moody's Investors Service, which assigned the Company its highest liquidity rating (SGL-1). The Company's liquidity position was further strengthened in February 2003 with the completion of two transactions. First, on February 3, 2003, the Company raised approximately $50 million by securitizing additional Eckerd managed care receivables (See Note 5). Second, on February 28, 2003, the Company issued $600 million principal amount of unsecured Notes Due 2010 at an effective rate of 8.125%. See further discussion of subsequent events in Note 21.

During 2002, the Company completed two transactions that were part of its long-term financing strategy. First, in May 2002, JCP and J.C. Penney Company, Inc. executed a new three-year $1.5 billion revolving credit agreement (credit facility), which replaced a $1.5 billion bank revolving credit facility and a $630 million letter of credit facility. Indebtedness incurred under the credit facility is collateralized by all eligible domestic department store and catalog inventory, as defined in the credit facility agreement. This credit facility provides JCP with an additional source of liquidity for working capital needs and letter of credit support. No borrowings have been made under this credit facility, other than the issuance of trade and stand-by letters of credit, which totaled $206 million as of year-end 2002. The Company was in compliance with all financial covenants of the credit facility as of January 25, 2003.

Second, in August 2002, the Company completed a debt exchange in which certain bondholders tendered $227.2 million principal amount of three existing debt issues in exchange for new 9.0% Notes Due 2012 with a principal amount of approximately $230.2 million. Bondholders exchanged $79.4 million principal amount of JCP's 6.125% Notes Due 2003, $67.0 million principal amount of its 7.375% Notes Due 2004 and $80.8 million principal amount of its 6.9% Debentures Due 2026. This transaction effectively extended the maturity on amounts represented by the exchanged notes and strengthened the Company's liquidity.

In 2001, the Company issued $650 million principal amount of subordinated convertible debentures. Additionally, the Company securitized certain Eckerd managed care receivables, which generated cash proceeds of $200 million.

The Company's liquidity is enhanced by the fact that the current debt portfolio and material lease agreements do not contain any provisions that could trigger early payments, acceleration or collateral support in the event of adverse changes in the Company's financial condition.

The Company has two debenture series that contain put options. In each case, the investor may elect to have the debenture redeemed at par prior to its stated maturity date. The 6.9% Notes Due 2026, principal amount $119 million, may be redeemed on August 15, 2003. The 7.4% Debentures Due 2037, principal amount $400 million, may be redeemed on April 1, 2005. For planning purposes, and in the contractual obligations table on page 14, the Company assumes the debenture holders will exercise their put options.

CAPITAL EXPENDITURES

Capital expenditures, including capitalized software costs and intangible assets, such as Eckerd prescription file acquisitions, during the past three years are as follows:

<Table>
<Caption>

($ in millions)	2002	2001	2000
<S>	<C>	<C>	<C>
Department Stores and Catalog	$ 317	$ 332	$ 361
Eckerd Drugstores	341	299	317
Total	$ 658	$ 631	$ 678

</Table>

Capital expenditures were approximately $200 million below the original plan for 2002 due to the deferral of certain department store technology projects as well as increased lease financing available for new Eckerd drugstores. Major capital investments in 2002 for department stores included the implementation of the SSC distribution network and in-store centralized checkouts, store modernizations and renewals and store technology improvements. 2002 capital investments in Eckerd were made primarily to continue the drugstore reconfiguration program, which was rolled out to an additional 800 drugstores in 2002. This program includes new and relocated stores, as well as stores in freestanding locations.

Management expects 2003 capital expenditures to be in the range of $0.9 billion to $1.1 billion, including approximately $100 million for deferred projects from 2002. 2003 capital expenditures will be about evenly split between Department Stores and Catalog, and Eckerd. Department Store and Catalog capital investments will be primarily for department store renovations and upgrades, completion of the SSC distribution network and technology enhancements. The majority of Eckerd capital spending in 2003 will be for the expansion of new and relocated stores, remodeling and reconfiguration of existing stores and new technology. In 2003, Eckerd expects to remodel 550 stores, open or relocate an additional 250 stores, so that by the end of 2003, 80% of the total drugstore portfolio will be operating in the new reconfigured format.

CASH FLOW AND FINANCING OUTLOOK

As of the end of 2002, the Company's long-term financing strategy remains on track. Two consecutive years of positive results and stronger than expected free cash flow in 2002 have increased the cash and short-term investment balance to approximately $2.5 billion as of year end. In effect, the cash investment balance is comprised of $1.3 billion of positive free cash flow over the 2000 to 2002 period and $1.1 billion in after-tax proceeds from the 2001 sale of DMS.

With the Company's current credit ratings and increased volatility in the capital markets generally, management believes a strong cash and liquidity position is an important part of its long-term financing strategy during the remaining years of the turnaround plan. Going

forward, cash investments will be used to fund several areas, including long-term debt maturities, which approximate $1.2 billion over the 2003 to 2005 period, increased levels of capital expenditures to support its business objectives, peak seasonal working capital needs and dividends. The payment of dividends is subject to approval by the Board of Directors and is discussed below.

In accordance with its long-term financing strategy, the Company manages its financial position on a multi-year basis and may access the capital markets on an opportunistic basis. The two financing transactions completed in February 2003 and discussed above are examples of the Company accessing the capital markets to refinance upcoming debt maturities, and further enhance liquidity and financial flexibility. As a result of its strong liquidity position after completing these transactions, the Company does not anticipate that additional external financing will be required in 2003 to fund the operating needs described above. Additionally, the Company does not expect to borrow under the $1.5 billion credit facility except to support ongoing letters of credit.

For 2003, free cash flow is expected to be negative by approximately $250 million, which is after funding capital expenditures at the high end of the previously stated range of $0.9 billion to $1.1 billion, working capital needs and dividends at the current level.

Notwithstanding the positive momentum generated during the first two years of its stated five-year turnaround, management recognizes that many challenges and risks remain for 2003 and beyond. Some of these risks are discussed under Key Business Risks on pages 14-15. To minimize the impact from unforeseen events, management has developed various contingency plans to provide alternative courses of action under several scenarios, including deteriorating economic conditions, potential shortfalls in profits or cash flow, and reduced access to the capital markets. Such actions include adjustments to capital expenditure and working capital levels, as necessary, to maintain liquidity and financial flexibility within the parameters of the Company's long-term financing strategy.

DIVIDEND POLICY

JCPenney paid quarterly dividends of $0.125 per share in 2002. The dividend rate was reduced for the third quarter of 2000 from $0.2875 to $0.125 per share. The Company's Board of Directors reviews the quarterly dividend and establishes the quarterly dividend rate based upon the overall financial and strategic outlook for the Company, the profile and mix of businesses, earnings, liquidity and cash flow projections, as well as competitive factors.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has operating leases which management takes into consideration in evaluating its capital structure and overall liquidity. See discussions on pages 14 and 41 and Note 14.

In May 2001, Eckerd formed a special purpose entity, ECR Receivables, Inc. (ECR), to complete a securitization of Eckerd managed care receivables. ECR is a wholly owned subsidiary of Eckerd. Under this arrangement, Eckerd sells managed care receivables to ECR, which then sells an undivided interest in the pool of receivables to an unrelated entity. ECR uses the cash collections of the receivables to purchase additional receivables from Eckerd under prearranged terms. JCP received $200 million in May 2001 from the sale, and recorded a small loss on the transaction. In February 2003, approximately $50 million was received. See discussion in Note 5. These transactions qualified as sales under the provisions of SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities."

Four of the 10 JCPenney department store support centers (SSCs) are operated by outside service providers. Two of the three SSCs scheduled to open in 2003 will also be outsourced. These openings are planned for the first half of 2003. As part of the operating service agreement between JCP and the third party providers, JCP shall assume financial responsibility for the building and equipment leases upon termination of services by either party for any reason. Potential obligations of JCP total $185 million.

JCP, through a wholly owned subsidiary, has investments in 15 partnerships that own regional mall properties, seven as general partner and eight as a limited partner. The Company's potential exposure to risk is greater in partnerships in which it is a general partner. Mortgages on the seven general partnerships total approximately $350 million; however, the estimated market value of the underlying properties is approximately $587 million. These mortgages are non-recourse to the Company, so any financial exposure is minimal. In addition, the subsidiary has guaranteed loans totaling approximately $43 million related to investments in one real estate investment trust (REIT). The estimated market value of the underlying properties significantly exceeds the outstanding mortgage loans, and the loan guarantee to market value ratio is less than 3% as of January 25, 2003. In the event of possible default, the creditors would recover first from the proceeds of the sale of the properties, next from the general partner, then from other guarantors before JCP's guarantee would be invoked. As a result, management does not believe that any potential financial exposure related to these guarantees would have a material impact on the Company's financial position or results of operations.

As part of the 2001 DMS sale, JCP signed a guarantee agreement with a maximum exposure of $20 million. This relates to the 1994 sale of a block of long-term care business by a former subsidiary of JCP to a third party. As part of the 1994 sale agreement, the purchaser was required to maintain adequate reserves in a trust. JCP's guarantee is the lesser of any reserve shortfall or $20 million. Any potential claims or losses are first recovered from established reserves, then from the purchaser and finally from any state insurance guarantee fund before JCP's guarantee would be invoked. It is uncertain if, or when, JCP would be required to pay any claims under this guarantee.

FOREIGN CURRENCY RISK

The Company operates 54 Renner department stores in Brazil and six JCPenney department stores in Mexico. Sales for 2002, 2001 and 2000 were $321 million, $316 million and $353 million, respectively. For the year ended January 25, 2003, the other comprehensive loss on foreign currency translation was approximately $64 million. Due to the relatively small size of foreign operations, management believes that its exposure to market risk associated with foreign currencies does not have a material impact on its financial condition or results of operations.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Aggregated information about the Company's contractual obligations and commitments as of January 25, 2003, are presented in the following tables. (This information is also disclosed in other parts of this Annual Report.)

CONTRACTUAL OBLIGATIONS

<Table>

<Caption>

($ in millions)	TOTAL	2003	2004	2005	2006	2007	AFTER 5 YEARS
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Long-term debt	$ 5,169	$ 394	$ 238	$ 624	$ 187	$ 554	$ 3,172
Short-term debt	13	13	--	--	--	--	--
Capital lease obligations	51	17	16	12	4	2	--
Operating leases	6,903	671	611	544	494	455	4,128
Total	$12,136	$ 1,095	$ 865	$ 1,180	$ 685	$ 1,011	$ 7,300

</Table>

COMMITMENT EXPIRATION PER PERIOD

<Table>
<Caption>

($ in millions)	TOTAL	2003	2004	2005	2006	2007	AFTER 5 YEARS
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Standby and import letters of credit(1)	$ 206	$ 206	$ --	$ --	$ --	$ --	$ --
Surety bonds(2)	98	98	--	--	--	--	--
Guarantees(3)	277	26	54	29	40	27	101
Total	$ 581	$ 330	$ 54	$ 29	$ 40	$ 27	$ 101

</Table>

(1) Standby letters of credit ($156 million at year-end) are issued as collateral to a third-party administrator for self-insured workers' compensation and general liability claims.

(2) Surety bonds are primarily for previously incurred and expensed obligations related to workers' compensation and general liability claims.

(3) Includes guarantees of $185 million on building and equipment leases operated by third parties, $43 million on loans related to a real estate investment trust, $29 million on certain leases related to stores that were sold in 1997, of which $22 million is recorded in other liabilities and $20 million related to a third party reinsurance guarantee.

MERCHANDISE INVENTORY

Total LIFO inventory was $4,945 million in 2002 compared with $4,930 million in 2001. FIFO merchandise inventory for Department Stores and Catalog was $3,030 million at the end of 2002, an increase from last year of 1.7%. While inventories are higher than last year's levels, they are well-balanced and focused on current and future seasons. Inventory turns for Department Stores and Catalog have improved from 3.0 to 3.4 over the past three years. Eckerd FIFO merchandise inventory was $2,318 million at the end of 2002, a decrease of 0.5% from the prior year. Major improvements have been made in the management of drugstore inventory. Over the last three years, inventory turns have improved from 4.0 to 4.8.

DEBT-TO-CAPITAL RATIO

<Table>
<Caption>

	2002	2001	2000
<S>	<C>	<C>	<C>
Debt-to-capital	30.2%	34.9%	43.2%
Debt-to-capital, including leases and securitization of receivables	50.7%	53.5%	56.8%

</Table>

The Company manages its capital structure to ensure financial flexibility and access to capital, at a competitive cost, necessary to accomplish its business strategies. Historically, the Company has targeted a debt-to-capital ratio in the 50% to 55% range, including off-balance sheet debt. Over the remaining turnaround time frame of 2003-2005, the Company currently expects that its debt-to-capital ratio will remain in this target range.

The Company manages its financial position by considering all on- and off-balance sheet debt, including operating leases and receivable securitizations. Management believes this view is the most realistic depiction of financial leverage. The debt-to-capital ratio is also shown as calculated in the more traditional manner of on-balance sheet debt for comparison purposes.

Total debt, net of short-term investments, but including the present value of operating leases and securitized receivables, was $6,541 million, $7,038 million and $8,232 million at the end of 2002, 2001 and 2000, respectively. The $1.7 billion decline in total debt and the resulting improvement in the debt-to-capital ratio over this period was achieved from the positive free cash flow generated and the sale of DMS. See page 41 for more discussion. During 2002, approximately $920 million principal amount of notes matured and was paid. Also in 2002, JCP exchanged three existing debt issues totaling $227.2 million principal amount for new 9.0% Notes Due 2012 with a principal amount of $230.2 million as discussed on page 12. The transaction effectively extended the maturity on amounts represented by the exchanged notes and strengthened the Company's liquidity as the turnaround of the businesses continues to be executed.

During 2001, $250 million principal amount of notes matured and was paid. JCP issued $650 million of 5% convertible subordinated notes in a private placement in October 2001.

KEY BUSINESS RISKS

The Company believes that its key business risk is that the five-year turnaround plan, which is entering its third year, will progress on target and will be achieved. Company management has established the following business strategies to ensure that the turnaround of its businesses is successful and progresses on target:

- For Department Stores and Catalog the primary initiatives have been to improve the merchandise assortments to more fashionable items at value prices, support the offerings with compelling marketing programs, improve the visual appeal of the store environment and catalogs, reduce the expense structure to more competitive levels, and concentrate on placing the right people in the right jobs.

- At Eckerd, the focus has been on developing a strong management team, better product offerings, more competitive pricing levels for general merchandise, reconfiguring drugstores to a more productive format and offering additional convenient locations.

The Company believes that these initiatives will be the drivers of its primary goal to strengthen and grow the customer franchise after experiencing a period of deteriorating performance from 1995 to 2000. Management is focused on strengthening the Company's value proposition with its customers.

While results have been positive for the most recent two years and indicate that the Company is on track in achieving its financial targets, the turnaround is complex and the Company will face continued challenges in the execution of its strategic initiatives.

An important factor in the Company's turnaround is the ability of department stores to operate under a centralized merchandising model. Under this model, professionals have been added to the merchandising team with experience in buying centrally. Additionally, certain information technology systems have been developed, and others are in various stages of development, to plan merchandise assortments, allocate inventory and stock stores, better track sales trends to enable prompt replenishment and manage pricing. To efficiently handle inventory flow the Company is in the final stages of rolling out centralized logistics store support centers. The effectiveness of these systems and processes as well as their timely integration is an important component of the Company's ability to have the right inventory in the "right place, at the right time, and at the right price."

Another important factor in the Company's turnaround is the ability of Eckerd drugstores to continue to grow its drugstore business and to maintain pharmacy margins, which are under continued pressure, as managed care organizations and other third party plans continue to seek cost containment. A key component to growing the drugstore base is to have a more competitive store-opening program and to complete the remodeling and relocation program, which is designed to convert existing stores to the reconfigured format that is more productive and efficient.

The Company's business is subject to other risk factors, both internal and external, that may impact future operating and financial performance, such as the ability to anticipate fashion trends, customer preferences and other fashion-related factors, attract or retain customers in a highly competitive retail environment, attract and retain key executives or other personnel, attract and retain a sufficient number of qualified pharmacists, continue to generate cash flow and obtain adequate financing. The Company has in place an experienced management team that has established programs and policies to manage and minimize those risks.

ACCOUNTING FOR STOCK OPTIONS

The Company has a stock option program for approximately 2,000 executives and senior management. Over the past several years, the Company's annual net stock option grants (stock options granted during the year, less any forfeitures or terminations) under this program have averaged about 1.5% of outstanding shares, including the common stock equivalent of preferred shares. On January 25, 2003, options to purchase 22.3 million shares of common stock, representing about 8% of total shares, were outstanding, of which 14.6 million were exercisable. Of the exercisable options, only 42% were "in-the-money" or had an exercise price below the closing end-of-year stock price of $19.39. See Note 12 for more details about the Company's stock option program.

The Company follows Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," (APB 25) which does not require expense recognition for stock options granted when the exercise price of the option equals, or exceeds, the fair market value of the common stock on the date of grant. See Note 1 on page 24 for further information about the Company's stock option accounting policy.

The Company evaluated its accounting for stock options during 2002, and elected to retain APB 25 accounting for several important reasons. The Company believes that stock options are equity capital transactions, which increase the number of shares outstanding when exercised, resulting in dilution of EPS and equity per share. Since they increase the number of shares outstanding, the dilutive effect of options is captured in the EPS calculation, and inclusion of an expense for stock options in the statement of operations would effectively result in a double charge to EPS. The cost of stock options would be a non-cash expense that would not result in the use of any operating resources and does not change the Company's equity balance. Additionally, before stock options are exercised, the Company assumes they are exercised (to the extent they are dilutive) for the diluted EPS calculation. Finally, the current stock-option pricing models do not factor in significant limitations of employee stock options such as vesting requirements, forfeiture provisions, retention periods and nontransferability. Standard option-pricing models were developed to value options traded in the marketplace, and overstate the value of employee stock options.

The FASB is currently reviewing the accounting for stock options, and may require the use of the fair value method prescribed by SFAS No. 123, "Accounting for Stock-Based Compensation." In addition, the International Accounting Standards Board has already issued a draft of accounting rules that require the expensing of stock options, and the FASB is working to align U.S. accounting with international standards. The Company intends to continue its current accounting, which is no expense recognition for stock options in the statement of operations, until the FASB clarifies stock option accounting for all U.S. companies. See discussion of SFAS No. 148 under the new accounting pronouncements section that follows.

NEW ACCOUNTING PRONOUNCEMENTS

FASB's Emerging Issues Task Force (EITF) Issue No. 02-16, "Accounting by a Reseller for Cash Consideration Received from a

Vendor," becomes effective for the Company in fiscal 2003. The consensus reached on this issue was that cash consideration received from a vendor is presumed to be a reduction of the cost of merchandise and should be recorded as a reduction of cost of goods sold unless the consideration is for either (1) payment for assets or services and therefore revenue, or (2) a reimbursement of costs incurred to sell the vendor's products, and therefore, a reduction of advertising expense. The Company's current accounting for funds received from vendors is consistent with that proposed under EITF 02-16; therefore, this issue will not have a material effect on the Company's consolidated financial statements.

In November 2002, the FASB issued FASB Interpretation No. 45 (FIN 45), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Guarantees of Indebtedness of Others." Disclosures related to this interpretation are effective for 2002 annual reports, and the accounting requirements are effective for guarantees entered into or modified after December 31, 2002, and require all guarantees and indemnifications within its scope to be recorded at fair value as liabilities, and the maximum possible loss to the Company under these guarantees and indemnifications to be disclosed. Current year disclosures related to guarantees are included on pages 13-14 and in Note 19. Adoption of FIN 45 did not have a material impact on the Company's consolidated financial statements.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation Costs - Transition and Disclosure." This statement amends SFAS No. 123, "Accounting for Stock-Based Compensation," and provides alternative methods of transition for an entity that voluntarily changes to the fair value-based method of accounting for stock-based compensation. It also requires additional disclosures about the effects on reported net income of an entity's accounting policy with respect to stock-based employee compensation. As discussed under the accounting for stock options on page 15, the Company accounts for stock-based compensation in accordance with APB 25, and has adopted the disclosure-only alternative of SFAS No. 123. The Company adopted the disclosure provisions of SFAS No. 148 for fiscal 2002. See Note 1 on page 24.

On January 17, 2003, FIN 46, "Consolidation of Variable Interest Entities, an interpretation of ARB 51," was issued. The primary objective of FIN 46 is to provide guidance on the identification and consolidation of variable interest entities, or VIEs, which are entities for which control is achieved through means other than through voting rights. The provisions of FIN 46 are required to be adopted by the Company in fiscal 2003. The Company does not expect the adoption of FIN 46 to have a material impact on its financial position, results of operations or cash flows.

FISCAL YEAR 2003

In February 2003, management communicated that the Company estimates income from continuing operations of $1.50 to $1.70 per share for 2003. Management is taking a cautious view due to uncertain economic and geopolitical conditions, as well as the internal challenges of meeting interim financial targets in the turnaround of the businesses.

Fiscal 2003 will contain 53 weeks. The extra week is expected to result in additional sales for the Company of $485 million, of which $185 million is for Department Stores and Catalog and $300 million is for Eckerd. SG&A expenses are estimated to be approximately $120 million higher in 2003 due to the additional week. In total, the 53rd week is not expected to have a significant effect on EPS for 2003.

Sales in department stores are planned to increase 1% on a comparable store basis. The focus will continue to be on offering competitively priced, fashionable merchandise assortments. Two new exclusive collections, Bisou Bisou, a contemporary line, and Emme, for the plus-size woman, will be offered, as well as an expanded fashion accessories department. Margins should continue to improve with further efficiencies expected from the centralized merchandise allocation and distribution network. SG&A expenses are not expected to be leveraged due to transitional costs associated with the new centralized logistics network, increased planned advertising and higher non-cash pension expense. Planned capital expenditures of approximately $550 million will be primarily for department store renewals and technology enhancements for merchandising and store processes. In catalog, the focus will be on sales growth, continued enhancements in merchandise assortments, value pricing and customer acquisition and activation activities.

For the Eckerd business, management is planning on comparable drugstore sales gains in the mid-single digits. Continued margin improvements are expected from higher generic drug sales, improved shrinkage and the benefits from improved procurement practices. SG&A expenses are expected to continue to be leveraged as a percent of sales. Planned capital expenditures of approximately $550 million will be made primarily to accelerate the new and relocated drugstore growth program. By the end of 2003, management expects to remodel 550 stores and relocate or open an additional 250 drugstores. As a result, by year end, Eckerd plans to have approximately 80% of the total drugstore base in the new reconfigured format.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This Annual Report, including the Chairman's letter, may contain forward-looking statements made within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements involve risks and uncertainties that could cause actual results to differ materially from predicted results. The Company's forward-looking statements are based on assumptions about many important factors, including competitive conditions in the retail industry; changes in consumer confidence and spending in the United States; direct-to-customer strategy and other initiatives; anticipated cash flow; general economic conditions, such as higher interest rates and unemployment and normal business uncertainty. In addition, the Company typically earns a disproportionate share of its operating income in the fourth quarter due to holiday buying patterns, which are difficult to forecast with certainty. While the Company believes that its assumptions are reasonable, it cautions that it is impossible to predict the impact of such factors that could cause actual results to differ materially from predicted results. The Company intends the forward-looking statements in this Annual Report to speak only at the time of its release and does not undertake to update or revise these projections as more information becomes available.

COMPANY STATEMENT ON FINANCIAL INFORMATION

The Company is responsible for the information presented in this Annual Report. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and present fairly, in all material respects, the Company's results of operations, financial position and cash flows. The Company's CEO and CFO have signed certification statements as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002. These signed certifications have been filed with the Securities and Exchange Commission as part of the Company's 2002 Form 10-K. Certain amounts included in the consolidated financial statements are estimated based on currently available information and judgment as to the outcome of future conditions and circumstances. Financial information elsewhere in this Annual Report is consistent with that in the consolidated financial statements.

The Company's system of internal controls is supported by written policies and procedures and supplemented by a staff of internal auditors. This system is designed to provide reasonable assurance, at suitable costs, that assets are safeguarded and that transactions are executed in accordance with appropriate authorization and are recorded and reported properly. The system is continually reviewed, evaluated and where appropriate, modified to accommodate current conditions. Emphasis is placed on the careful selection, training and development of professional finance and internal audit managers.

An organizational alignment that is premised upon appropriate delegation of authority and division of responsibility is fundamental to this system. Communication programs are aimed at assuring that established policies and procedures are disseminated and understood throughout the Company.

The consolidated financial statements have been audited by independent auditors whose report appears below. Their audit was conducted in accordance with auditing standards generally accepted in the United States of America, which include the consideration of the Company's internal controls to the extent necessary to form an independent opinion on the consolidated financial statements prepared by management.

The Audit Committee of the Board of Directors is composed solely of directors who are not officers or employees of the Company. The Audit Committee's responsibilities include selection of the independent auditors for the annual audit of the Company's consolidated financial statements, actually appointing the independent auditors and monitoring their audit activities. The Committee also reviews the independent auditors' audit strategy and plan, scope, fees, audit results, performance, independence and non-audit services and related fees; internal audit reports on the adequacy of internal controls; the Company's ethics program; status of significant legal matters; the scope of the internal auditors' plans and budget and results of their audits and the effectiveness of the Company's program for correcting audit findings. The independent auditors and Company personnel, including internal auditors, meet periodically with the Audit Committee to discuss auditing and financial reporting matters.

/s/ ROBERT B. CAVANAUGH
Robert B. Cavanaugh
Executive Vice President and Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

To the Stockholders and Board of
Directors of J. C. Penney Company, Inc.:

We have audited the accompanying consolidated balance sheets of J. C. Penney Company, Inc. and Subsidiaries as of January 25, 2003 and January 26, 2002, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the years in the three-year period ended January 25, 2003. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of J. C. Penney Company, Inc. and Subsidiaries as of January 25, 2003 and January 26, 2002, and the results of their operations and their cash flows for each of the years in the three-year period ended January 25, 2003, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 of the Notes to the Consolidated Financial

Statements, the Company changed its method of determining inflation/deflation rates used in the valuation of LIFO inventories in fiscal year 2002, and the Company adopted the provisions of the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" in fiscal year 2002.

/s/ KPMG LLP

Dallas, Texas
February 20, 2003, except as to Note 21,
which is as of February 28, 2003

CONSOLIDATED STATEMENTS OF OPERATIONS

<Table>
<Caption>

($ in millions, except per share data)	2002	2001	2000
<S>	<C>	<C>	<C>
RETAIL SALES, NET	$ 32,347	$ 32,004	$ 31,846
COSTS AND EXPENSES			
Costs of goods sold	22,573	22,789	23,031
Selling, general and administrative expenses	8,667	8,459	8,637
Other unallocated	93	46	515
Net interest expense	388	386	427
Acquisition amortization	42	121	122
Total costs and expenses	31,763	31,801	32,732
Income/(loss) from continuing operations before income taxes	584	203	(886)
Income taxes	213	89	(318)
INCOME/(LOSS) FROM CONTINUING OPERATIONS	$ 371	$ 114	$ (568)
Income from discontinued operations (net of income tax of $0, $0 and $90)	--	--	159
Gain/(loss) on sale of discontinued operations (net of income tax of $(34), $(6) and $200)	34	(16)	(296)
NET INCOME/(LOSS)	$ 405	$ 98	$ (705)
Less: preferred stock dividends	27	29	33
Net income/(loss) applicable to common stockholders	$ 378	$ 69	$ (738)
Earnings/(loss) per share from continuing operations:			
Basic	$ 1.28	$ 0.32	$ (2.29)
Diluted	$ 1.25	$ 0.32	$ (2.29)
Earnings/(loss) per share:			
Basic	$ 1.41	$ 0.26	$ (2.81)
Diluted	$ 1.37	$ 0.26	$ (2.81)

</Table>

The accompanying notes are an integral part of these Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

<Table>
<Caption>

($ in millions, except per share data)	2002	2001
ASSETS		
Current assets		
Cash and short-term investments	$ 2,474	$ 2,840
Receivables (net of bad debt reserves of $14 and $27)	705	698
Merchandise inventory (net of LIFO reserves of $403 and $377)	4,945	4,930
Prepaid expenses	229	209
Total current assets	8,353	8,677
Property and equipment		
Land and buildings	2,940	2,987
Furniture and fixtures	3,946	4,105
Leasehold improvements	1,268	1,225
Accumulated depreciation	(3,253)	(3,328)
Property and equipment, net	4,901	4,989
Goodwill	2,304	2,321
Intangible assets (net of accumulated amortization of $322 and $304)	494	527
Other assets	1,815	1,534
TOTAL ASSETS	$ 17,867	$ 18,048
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued expenses	$ 3,791	$ 3,465
Short-term debt	13	15
Current maturities of long-term debt	275	920
Deferred taxes	80	99
Total current liabilities	4,159	4,499
Long-term debt	4,940	5,179
Deferred taxes	1,391	1,231
Other liabilities	1,007	1,010
TOTAL LIABILITIES	11,497	11,919
STOCKHOLDERS' EQUITY		
Preferred stock, no par value and stated value of $600 per share; authorized, 25 million shares; issued and outstanding, 0.6 million and 0.6 million shares Series B ESOP convertible preferred	333	363
Common stock, par value $0.50 per share; authorized, 1,250 million shares; issued and outstanding 269 million and 264 million shares	3,423	3,330
Reinvested earnings	2,817	2,573
Accumulated other comprehensive (loss)	(203)	(137)
TOTAL STOCKHOLDERS' EQUITY	6,370	6,129
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 17,867	$ 18,048

</Table>

The accompanying notes are an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

<Table>

<Caption>

($ in millions)	Preferred Stock	Common Stock	Reinvested Earnings	Accumulated Other Comprehensive (Loss)/Income(1)	Total Stockholders' Equity	Total Comprehensive (Loss)/Income
<S>	<C>	<C>	<C>	<C>	<C>	
January 29, 2000	$ 446	$ 3,266	$ 3,590	$ (74)	$ 7,228	
Net (loss)			(705)		(705)	
Unrealized gain on investments				2	2	
Currency translation adjustments				(14)	(14)	
Other comprehensive income from discontinued operations				16	16	
TOTAL COMPREHENSIVE (LOSS)						(701)
Dividends declared			(249)		(249)	
Common stock issued		28			28	
Preferred stock redeemed	(47)				(47)	
January 27, 2001	399	3,294	2,636	(70)	6,259	
Net income			98		98	
Unrealized gain on investments				12	12	
Reclassification adjustment for gains included in income from continuing operations, net of tax				(1)	(1)	
Currency translation adjustments				(27)	(27)	
Non-qualified plan minimum liability adjustment				(51)	(51)	
TOTAL COMPREHENSIVE INCOME						31
Dividends declared			(161)		(161)	
Common stock issued		30			30	
Preferred stock redeemed	(36)				(36)	
Vesting of restricted stock awards		6			6	
January 26, 2002	363	3,330	2,573	(137)	6,129	
Net income			405		405	
Unrealized gain on investments				8	8	
Reclassification adjustment for gains included in income from continuing operations, net of tax				(3)	(3)	
Currency translation adjustments				(64)	(64)	
Non-qualified plan minimum liability adjustment				(7)	(7)	
TOTAL COMPREHENSIVE INCOME						339
Dividends declared			(161)		(161)	
Common stock issued		89			89	
Preferred stock redeemed	(30)				(30)	
Vesting of restricted stock awards		4			4	
January 25, 2003	$ 333	$ 3,423	$ 2,817	$ (203)	$ 6,370	

</Table>

(1) Components of accumulated other comprehensive (loss)/income include: (a) foreign currency translation adjustments of $(164) million, $(100) million and $(73) million in 2002, 2001 and 2000, respectively. A deferred tax asset has not been established for currency translation adjustments due to the historical reinvestment of earnings in the foreign subsidiaries; (b) unrealized gains on investments of $19 million (net of $10 million deferred taxes), $14 million (net of $8 million of deferred taxes) and $3 million (net of $2 million deferred taxes) in 2002, 2001 and 2000, respectively, and (c) minimum liability adjustment for the supplemental retirement plans of $(58) million (net of a $39 million deferred tax asset) and $(51) million (net of a $33 million deferred tax asset) in 2002 and 2001, respectively.

The accompanying notes are an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

<Table>
<Caption>

($ in millions)	2002	2001	2000
<S>	<C>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Income/(loss) from continuing operations	$ 371	$ 114	$ (568)
Adjustments to reconcile income/(loss) from continuing operations to net cash provided by operating activities			
Asset impairments, PVOL and other unit closing costs	104	56	454
Depreciation and amortization, including intangible assets	667	717	695
Net gains on sale of assets	(18)	(81)	(11)
Company contributions to savings and profit sharing plans	47	58	--
Benefit plans expense/(income)	30	(73)	(79)
Vesting of restricted stock awards	4	6	--
Deferred taxes	141	86	(95)
Change in cash from:			
Receivables	(6)	3	33
Sale of drugstore receivables	--	200	--
Inventory	82	381	772
Pension contribution	(300)	--	--
Prepaid expenses and other assets	(36)	(29)	(67)
Accounts payable	138	(458)	365
Current income taxes payable	3	(70)	(150)
Other liabilities	102	22	154
NET CASH FROM OPERATING ACTIVITIES	1,329	932	1,503
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	(658)	(631)	(678)
Proceeds from sale of discontinued operations	--	1,306	--
Proceeds from sale of assets	38	61	62
Proceeds from sale of investment securities	--	--	268
NET CASH FROM INVESTING ACTIVITIES	(620)	736	(348)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Change in short-term debt	(2)	15	(330)
Proceeds from equipment financing	27	--	--
Proceeds from the issuance of long-term debt	--	630	--
Payment of long-term debt, including capital leases	(939)	(263)	(816)
Common stock issued, net	30	30	28
Preferred stock redeemed	(30)	(36)	(47)
Dividends paid, preferred and common	(161)	(161)	(294)
NET CASH FROM FINANCING ACTIVITIES	(1,075)	215	(1,459)
Cash received from discontinued operations	--	13	93
Net (decrease)/increase in cash and short-term investments	(366)	1,896	(211)
Cash and short-term investments at beginning of year	2,840	944	1,155
CASH AND SHORT-TERM INVESTMENTS AT END OF YEAR	$ 2,474	$ 2,840	$ 944
SUPPLEMENTAL CASH FLOW INFORMATION			
Interest paid	$ 422	$ 420	$ 489
Interest received	39	51	49
Income taxes paid/(received)	60	68	(97)

</Table>

Non-cash transactions: In 2002, the Company exchanged certain notes and debentures with a carrying amount of $227 million for new notes recorded at a fair value of $225 million and issued 2.9 million shares of common stock to fund the 2001 contribution of $58 million to the savings plan. Eckerd acquired $15 million, $6 million and $40 million of equipment utilizing capital leases in 2002, 2001 and 2000, respectively.

The accompanying notes are an integral part of these Consolidated Financial Statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS

JCPenney was founded by James Cash Penney in 1902 and has grown to be a major retailer, operating 1,049 JCPenney department stores throughout the United States, Puerto Rico and Mexico, and 54 Renner department stores in Brazil. The Company's Department Store and Catalog business consists of selling family apparel, jewelry, shoes, accessories and home furnishings, and providing services, such as salon, optical, portrait photography and custom decorating, to customers through department stores, catalog and the internet.

In addition, the Company operates a chain of 2,686 drugstores (primarily under the Eckerd name) located throughout the Southwest, Southeast, Sunbelt and Northeast regions of the United States. Eckerd drugstores sell prescription drugs, over-the-counter drugs, as well as general merchandise items such as beauty and household products, photo processing services, snacks, vitamins and baby products.

BASIS OF PRESENTATION

The consolidated financial statements present the results of J. C. Penney Company, Inc. and its subsidiaries. All significant inter-company transactions and balances have been eliminated in consolidation.

Effective January 27, 2002, J. C. Penney Company, Inc. changed its corporate structure to a holding company format. As part of this structure, J. C. Penney Company, Inc. changed its name to J. C. Penney Corporation, Inc. (JCP) and became a wholly owned subsidiary of a newly formed affiliated holding company (Holding Company). The Holding Company assumed the name J. C. Penney Company, Inc. The Holding Company has no direct subsidiaries other than JCP. The Holding Company has no independent assets or operations. All outstanding shares of common and preferred stock were automatically converted into the identical number and type of shares in the Holding Company. Stockholders' ownership interests in the business did not change as a result of the new structure. Shares of the Company remain publicly traded under the same symbol (JCP) on the New York Stock Exchange. The Holding Company is a co-obligor (or guarantor, as appropriate) regarding the payment of principal and interest on JCP's outstanding debt securities. The guarantee by the Holding Company of certain of JCP's outstanding debt securities is full and unconditional. The Holding Company and its consolidated subsidiaries, including JCP, are collectively referred to in this Annual Report as "Company" or "JCPenney," unless indicated otherwise.

USE OF ESTIMATES

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. While actual results could differ from these estimates, management does not expect the differences, if any, to have a material effect on the financial statements.

The most significant estimates relate to inventory valuation under the retail method, specifically permanent reductions to retail prices (markdowns) and adjustments for shortages (shrinkage); valuation of long-lived and intangible assets, including goodwill; and valuation allowances and reserves, specifically those related to closed stores, workers' compensation and general liability, environmental contingencies, income taxes and litigation. Closed store reserves are established for the estimated present value of lease obligations (PVOL) and other exit costs. Workers' compensation and general liability reserves are based on actuarially determined estimates of claims that have been reported, as well as those incurred but not yet reported resulting from historical experience and current data. Environmental remediation reserves are estimated using a range of potential liability, based on the Company's experience and consultation with independent engineering firms and in-house legal counsel, as appropriate. Income taxes are estimated for each jurisdiction in which the Company operates. Deferred tax assets are evaluated for recoverability, and a valuation allowance is recorded if it is deemed more likely than not that the asset will not be realized. Litigation reserves are based on management's best estimate of potential liability, with consultation of in-house and outside counsel, and are based upon a combination of litigation and settlement strategies.

FISCAL YEAR

The Company's fiscal year ends on the last Saturday in January. Fiscal 2002 ended January 25, 2003; fiscal 2001 ended January 26, 2002; and fiscal 2000 ended January 27, 2001. All three years contained 52 weeks. The accounts of Renner are on a calendar-year basis.

RECLASSIFICATIONS

Certain reclassifications have been made to prior year amounts to conform to the current year presentation. None of the reclassifications impacted the Company's net earnings/(loss) or earnings/(loss) per share (EPS) in any period.

MERCHANDISE AND SERVICES REVENUE RECOGNITION

Revenue, net of any returns, is recorded at the point of sale for retail stores and at the time of shipment for catalog, internet and mail-order pharmacy sales. Commissions earned on sales

generated by licensed departments are included as a component of retail sales. Shipping and handling fees charged to customers are also recorded as retail sales with related costs recorded as cost of goods sold. An allowance has been established for estimated merchandise returns.

In January 2002 the Company changed its policy to charge the customer and record the sale when a catalog order is shipped to a department store for customer pickup. Previously, revenue on a shipment of a catalog order to a department store was recorded when the customer picked up and paid for the merchandise.

ADVERTISING

Advertising costs, which include newspaper, television, radio and other media advertising, are expensed either as incurred or the first time the advertising occurs, and were $1.1 billion, $947 million and $967 million for 2002, 2001 and 2000, respectively. These totals include catalog book costs of $260 million, $269 million and $312 million for 2002, 2001 and 2000, respectively. Catalog book preparation and printing costs, which are considered direct response advertising, are charged to expense over the life of the catalog, not to exceed eight months. Included in other assets are deferred catalog book costs of $73 million as of January 25, 2003 and $86 million as of

January 26, 2002.

VENDOR ALLOWANCES

The Company receives cash or allowances from merchandise vendors as purchase price adjustments and in connection with cooperative advertising programs. The Company has agreements in place with each vendor setting forth the specific conditions for each allowance or payment.

In accordance with EITF 02-16, "Accounting by a Reseller for Cash Consideration Received from a Vendor," the Company records qualifying vendor reimbursements of costs incurred to advertise a vendor's products as a reduction of advertising expense. Vendor allowances that relate to margin performance not attained on the sale of certain merchandise are credited directly to cost of goods sold in the period received. For other vendor allowances, such as those based on purchase volumes, inventory cost is reduced as required purchase levels are met.

PRE-OPENING EXPENSES

Costs associated with the opening of new stores are expensed in the period incurred.

RETIREMENT-RELATED BENEFITS

The Company accounts for its defined benefit pension plans and its non-pension post-retirement benefit plans using actuarial models required by Statement of Financial Accounting Standards (SFAS) No. 87, "Employers' Accounting for Pensions," and SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," respectively. These models effectively spread changes in asset values, the pension obligation and assumption changes systematically and gradually over the employee service periods. One of the principal components of the net periodic pension calculation is the expected long-term rate of return on plan assets. The required use of the expected long-term rate of return on plan assets may result in recognized pension income that is greater or less than the actual returns on those plan assets in any given year. Over time, however, the expected long-term returns are designed to approximate the actual long-term returns, and therefore, result in a pattern of income and expense that more closely matches the pattern of services provided by employees. Differences between actual and expected returns are recognized gradually in net periodic pension expense or offset by future gains or losses.

The Company uses long-term historical actual return data, the mix of investments that comprise plan assets and future estimates of long-term investment returns by reference to external sources to develop its expected return on plan assets.

The discount rate assumptions used for pension and non-pension post-retirement benefit plan accounting reflect the rates available on AA rated corporate bonds on October 31 of each year. The rate of compensation increase is another significant assumption used in the actuarial model for pension accounting and is determined based upon the Company's long-term plans for such increases. For retiree medical plan accounting, the health care cost trend rates do not have a material impact since dollar limits have been placed on Company contributions.

INCOME TAXES

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recorded to reduce the carrying amounts of deferred tax assets unless it is more likely than not that such assets will be realized.

EARNINGS/(LOSS) PER COMMON SHARE

Basic EPS is computed by dividing net income/(loss) less dividend requirements on the Series B ESOP Convertible Preferred Stock, net of tax as applicable, by the weighted average number of common shares outstanding for the period. Except when the effect would be anti-dilutive, the diluted EPS calculation includes the impact of restricted stock units and shares that could be issued under outstanding stock options as well as common shares that would result from the conversion of convertible debentures and convertible preferred stock. In addition, the related interest on convertible debentures (net of tax) and preferred stock dividends

(net of tax) are added back to income, since these would not be paid if the debentures or preferred stock were converted to common stock.

STOCK-BASED COMPENSATION

The Company has a stock-based compensation plan, which is discussed more fully in Note 12. The Company accounts for the plan under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25), and related Interpretations. No stock-based employee compensation cost is reflected in net income for stock options, as all options granted under the plan had an exercise price equal to the market value of the underlying common stock on the date of grant. Compensation expense for restricted stock awards with pro rata vesting is recorded on a straight-line basis over the vesting period, which typically ranges from one to five years.

The following table illustrates the effect on net income and EPS as if the Company had applied the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," to stock options.

<Table>
<Caption>

($ in millions, except EPS)	2002	2001	2000
<S>	<C>	<C>	<C>
Net income/(loss), as reported	$ 405	$ 98	$ (705)
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	3	5	4
Deduct: Total stock-based employee compensation expense determined under fair value method for all awards, net of related tax effects	(23)	(24)	(14)
Pro forma net income	$ 385	$ 79	$ (715)
Earnings per share:			
Basic--as reported	$ 1.41	$ 0.26	$ (2.81)
Basic--pro forma	$ 1.34	$ 0.19	$ (2.86)
Diluted--as reported	$ 1.37	$ 0.26	$ (2.81)
Diluted--pro forma	$ 1.30	$ 0.19	$ (2.86)

</Table>

The Company used the Black-Scholes option-pricing model to estimate the grant date fair value of its stock option grants for the periods presented above. The following Black-Scholes assumptions were used to estimate the grant date fair value of stock options:

Option Assumptions	2002	2001	2000
Dividend yield	3.9%	4.2%	4.2%
Expected volatility	40.0%	40.2%	35.2%
Risk-free interest rate	4.7%	4.8%	6.2%
Expected option term	7 years	5 years	5 years
Weighted-average fair value of options at grant date	$ 6.32	$ 4.36	$ 3.78

CASH AND SHORT-TERM INVESTMENTS

All highly liquid investments with original maturities of three months or less are considered to be short-term investments. The short-term investments consist primarily of euro-dollar time deposits and money market funds and are stated at cost, which approximates fair market value. See Note 4 for a discussion of restricted short-term investment balances.

RECEIVABLES, NET

Receivables of the Eckerd retail managed care operations, mail order and pharmacy benefit management operations were $338 million and $341 million as of year-end 2002 and 2001, respectively. See Note 5 for discussion of Eckerd securitization of certain managed care receivables. Renner credit card receivables were $66 million and $80 million as of year-end 2002 and 2001, respectively. Also included in this classification are notes and miscellaneous receivables. A summary of the allowance for bad debts is as follows:

($ in millions)	2002	2001	2000
Balance at beginning of year	$ 27	$ 30	$ 20
Additions, charged to costs and expenses	32	29	33
Deductions of write-offs, less recoveries	(45)	(32)	(23)
Balance at end of year	$ 14	$ 27	$ 30

MERCHANDISE INVENTORIES

Inventories for Department Stores and Catalog are valued primarily at the lower of cost (using the last-in, first-out or "LIFO" method) or market, determined by the retail method for department stores and average cost for catalog. The lower of cost or market is determined on an aggregate basis for similar types of merchandise. To estimate the effects of inflation/deflation on ending inventory, an internal index is calculated using cost data. Prior to 2002, the internal index was based on the changes in initial retail prices from the beginning to the end of the fiscal year at the merchandise item level. Initial retail pricing is influenced by such factors as: changes in pricing strategies, competitive pricing and changes in styles and fashion, particularly in the apparel lines of merchandise. These factors affect the measurement of price changes, making it difficult to estimate inflation/deflation rates. Beginning in 2002, Department Stores and Catalog changed the basis of the internal index to measure inflation/deflation rates on vendor, or supplier cost. Vendor cost results in a more accurate measurement of inflation/deflation rates used to adjust ending inventory cost under the LIFO method of inventory valuation. For

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2002, the internal cost inflation/deflation rates were used to calculate the LIFO adjustment to ending inventory. The change resulted in a LIFO provision for 2002 of $6 million versus a credit of $17 million under the old method. For 2002, net income, basic EPS and diluted EPS were lower by $14 million, $0.06 and $0.05, respectively, as a result of this change. The cumulative effect of the accounting change and pro forma amounts for periods prior to 2002 are not determinable because cost data is not available to calculate internal indices for years prior to 2002.

In the Eckerd Drugstore segment, pharmaceutical and general merchandise warehouse inventories are valued at the lower of LIFO cost or market. General merchandise at retail drugstore locations is valued using a modified retail method. Eckerd utilizes internally developed price indices based on cost to estimate the effects of inflation on inventories.

The total Company LIFO charges included in cost of sales were $26 million, $38 million and $69 million in 2002, 2001 and 2000, respectively. If the first-in, first-out or "FIFO" method of inventory valuation had been used instead of the LIFO method, inventories would have been $403 million and $377 million higher at January 25, 2003 and January 26, 2002, respectively.

PROPERTY AND EQUIPMENT

Property and equipment is stated at cost less accumulated depreciation. Depreciation is provided principally by the straight-line method over the estimated useful lives of the related assets, generally three to 20 years for furniture and equipment and 50 years for buildings. Leasehold improvements are amortized over the shorter of the estimated useful lives of the improvements or the term of the lease.

Routine maintenance and repairs are expensed when incurred. Major replacements and improvements are capitalized. The cost of assets sold or retired and the related accumulated depreciation or amortization are removed from the accounts, with any resulting gain or loss included in net income.

CAPITALIZED SOFTWARE COSTS

Costs associated with the acquisition or development of software for internal use are capitalized and amortized over the expected useful life of the software, generally between three and seven years.

GOODWILL AND OTHER INTANGIBLE ASSETS

Effective January 27, 2002, the Company adopted 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. Additionally, a transitional impairment test was required as of the adoption date. These impairment tests were performed on each business of the Company where goodwill is recorded. The net carrying value of goodwill and the Eckerd trade name was $2,643 million as of January 26, 2002. The Company completed the transitional impairment test on the Eckerd trade name in the first quarter of 2002 and the transitional goodwill impairment test in the second quarter of 2002 and determined that there was no evidence of impairment.

In the fourth quarter of 2002, the Company completed its annual impairment analysis and determined that there was no evidence of impairment. The fair value of the Company's identified reporting units was estimated using the expected present value of corresponding future cash flows and market values of comparable businesses where available. Other intangible assets with estimable useful lives will continue to be amortized over those lives.

The following table sets forth the condensed consolidated pro forma results of operations as if SFAS No. 142 had been in effect for all years presented:

<Table>
<Caption>

($ in millions, except EPS)	2002	2001	2000
<S>	<C>	<C>	<C>
Reported net income/(loss)	$ 405	$ 98	$ (705)
Goodwill and trade name amortization, net of tax	--	72	72
Adjusted net income/(loss)	$ 405	$ 170	$ (633)
Basic EPS:			
Reported net income/(loss)	$ 1.41	$ 0.26	$ (2.81)
Goodwill and trade name amortization, net of tax	--	0.27	0.27
Adjusted net income/(loss)	$ 1.41	$ 0.53	$ (2.54)
Diluted EPS:			
Reported net income/(loss)	$ 1.37	$ 0.26	$ (2.81)
Goodwill and trade name amortization, net of tax	--	0.27	0.27
Adjusted net income/(loss)	$ 1.37	$ 0.53	$ (2.54)

</Table>

Intangible assets consisted of the following:

<Table>
<Caption>

($ in millions)	2002	2001
<S>	<C>	<C>
AMORTIZING INTANGIBLE ASSETS:		
Prescription files	$ 289	$ 258
Less accumulated amortization	157	121
Prescription files, net	132	137
Favorable lease rights	205	204
Less accumulated amortization	165	136
Favorable lease rights, net	40	68
Carrying amount of amortizing intangible assets	172	205
NON-AMORTIZING INTANGIBLE ASSETS		
Eckerd trade name(1)	322	322
Total intangible assets	$ 494	$ 527

</Table>

(1) Eckerd trade name is net of accumulated amortization of $47 million for year-end 2001.

The following table provides amortization expense for the periods presented. Amortization expense related to major business acquisitions is reported as acquisition amortization on the consolidated statements of operations. The remaining amount of amortization expense is included in selling, general and administrative (SG&A) expenses.

($ in millions)	2002	2001	2000
Major business acquisitions(1)	$ 42	$ 121	$ 122
Other acquisitions	23	20	17
Total for amortizing intangible assets	$ 65	$ 141	$ 139

(1) Includes amortization expense of $75 million and $76 million related to goodwill and trade name for the years ending January 26, 2002 and January 27, 2001, respectively, before the adoption of SFAS No. 142. Major business acquisitions include Eckerd Corporation acquired in early 1997, Lojas Renner S.A. acquired in January 1999 and Genovese Drug Stores, Inc. acquired in March 1999.

Amortization expense for the intangible assets reflected on the previous page is expected to be approximately (in millions) $65, $33, $25, $15 and $9 for fiscal years 2003, 2004, 2005, 2006 and 2007, respectively. Of these amounts, amortization related to major business acquisitions is expected to be approximately (in millions) $40, $9, $6, $1 and $0 for fiscal years 2003, 2004, 2005, 2006 and 2007, respectively.

The carrying amount of goodwill was $2,321 million at the beginning of 2002 and decreased to $2,304 million at January 25, 2003, due to currency translation adjustments. At January 25, 2003, the total carrying amount of goodwill consisted of $35 million for the Department Store and Catalog segment and $2,269 million for the Eckerd Drugstore segment.

IMPAIRMENT OF LONG-LIVED ASSETS

In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the Company evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of those assets may not be recoverable. Factors considered important that could trigger an impairment review include, but are not limited to, significant underperformance relative to historical or projected future operating results and significant changes in the manner of use of the assets or the Company's overall business strategies. For long-lived assets held for use, SFAS No. 144 requires that if the sum of the future cash flows expected to result from the use and eventual disposition of a company's long-lived assets, undiscounted and without interest charges, is less than the reported value of those assets, an asset impairment must be recognized in the financial statements. The amount of such impairment is calculated by subtracting the fair value of the assets from the reported value of the assets. SFAS No. 144 requires that a long-lived asset to be abandoned be considered held and used until it is disposed of. For a long-lived asset to be disposed of by sale or otherwise, the unit of accounting is the group (disposal group) that represents assets to be disposed of together as a group in a single transaction and liabilities directly associated with these assets that will be transferred in the transaction. SFAS No. 144 establishes six criteria that must be met before a long-lived asset may be classified as held for sale. Assets that meet those criteria are no longer depreciated, and are measured at the lower of carrying amount at the date the asset initially is classified as held for sale or its fair value less costs to sell.

Based on management's ongoing review of the performance of its portfolio of stores and other facilities, impairment losses totalling $76 million were recorded for underperforming department stores in the United States and Mexico and certain catalog and other facilities. These charges are reflected in other unallocated, which is a component of income from continuing operations in the accompanying consolidated statement of operations. See further discussion in Note 16.

ACCOUNTING FOR DEBT EXCHANGE

The Company adopted SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections," in the second quarter of 2002, concurrent with the initial closing of notes tendered in the Company's debt exchange. Statement No. 145 rescinded Statement No. 4, "Reporting Gains and Losses from Extinguishment of Debt - an amendment of APB Opinion No. 30," which required any gain or loss from extinguishment of debt to be classified as an extraordinary item, net of related income tax effect. As a result, the criteria set forth by APB Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," will now be used to classify those gains and losses. In accordance with SFAS No. 145, the net loss on the debt exchange of approximately $0.4 million was recorded as net interest expense in income from continuing operations and is more fully discussed in Note 10.

EXIT OR DISPOSAL ACTIVITY COSTS

In June 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This Statement requires that costs associated with exit or disposal activities be recorded at their fair values when a liability has been incurred. Under previous guidance, certain exit costs were accrued upon management's commitment to an exit plan, which is generally before an actual liability has been incurred. This Statement is effective for exit or disposal activities initiated after December 31, 2002, with earlier application encouraged. The Company adopted the provisions of SFAS No. 146 in the third quarter of 2002. As a result, certain costs associated with exit or disposal activities are recorded in later periods than under the previous rules, but the change did not have a material impact on the Company's results of operations or financial condition.

FOREIGN CURRENCY TRANSLATION

Financial statements of subsidiaries outside the U.S. are measured using the local currency as the functional currency. Assets and liabilities for these subsidiaries are translated into U.S. dollars at the exchange rates in effect at the balance sheet date, while revenues and expenses are translated using average currency rates during the reporting period. Adjustments from such translations are accumulated in the equity section of the consolidated balance sheet under the caption, "Accumulated other comprehensive (loss)."

EFFECT OF NEW ACCOUNTING STANDARDS

Emerging Issues Task Force (EITF) Issue No. 02-16, "Accounting by a Reseller for Cash Consideration Received from a Vendor," becomes effective for the Company in fiscal 2003. The consensus reached on this issue was that cash consideration received from a vendor is presumed to be a reduction of the cost of merchandise and should be recorded as a reduction of cost of goods sold unless the consideration is for either (1) payment for assets or services and therefore revenue, or (2) a reimbursement of costs incurred to advertise the vendor's products, and therefore, a reduction of advertising expense. The Company's current accounting for funds received from vendors is consistent with that proposed under EITF 02-16; therefore, this issue will not have a material effect on the Company's consolidated financial statements.

In November 2002, the FASB issued FASB Interpretation No. 45 (FIN 45), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Guarantees of Indebtedness of Others." Disclosures related to this interpretation are effective for 2002 annual reports, and the accounting requirements are effective for guarantees entered into or modified after December 31, 2002, and require all guarantees and indemnifications within its scope to be recorded at fair value as liabilities, and the maximum possible loss to the Company under these guarantees and indemnifications to be disclosed. Current year disclosures related to guarantees are included in Note 19. Adoption of FIN 45 did not have a material impact on the Company's consolidated financial statements.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation Costs - Transition and Disclosure." This statement amends SFAS No. 123 and provides alternative methods of transition for an entity that voluntarily changes to the fair value-based method of accounting for stock-based compensation. It also requires additional disclosures about the effects on reported net income of an entity's accounting policy with respect to stock-based employee compensation. As discussed under accounting for stock options on page 15, the Company accounts for stock-based compensation in accordance with APB 25 and has adopted the disclosure-only alternative of SFAS No. 123. The Company adopted the disclosure provisions of SFAS No. 148 for fiscal 2002.

On January 17, 2003, FIN 46, "Consolidation of Variable Interest Entities, an interpretation of ARB 51," was issued. The primary objective of FIN 46 is to provide guidance on the identification and consolidation of variable interest entities, or VIEs, which are entities for which control is achieved through means other than through voting rights. The provisions of FIN 46 are required to be adopted by the Company in fiscal 2003. The Company does not expect the adoption of FIN 46 to have a material impact on its financial position, results of operations or cash flows.

2 DISCONTINUED OPERATIONS

In June 2001, JCP closed on the sale of its Direct Marketing Services (DMS) business and received cash of approximately $1.3 billion ($1.1 billion after tax). Upon completion of the transaction, the loss was increased from the original estimate by $16 million, from $296 million to $312 million. The $296 million was reflected in the 2000 consolidated financial statements as the estimated net loss on the sale. The additional net loss of $16 million was reflected in 2001 as a loss on the sale of discontinued operations.

During 2002, new federal income tax regulations were issued that entitled the Company to additional tax benefits on the transaction from increased capital loss deductions. The Internal Revenue Service reviewed this transaction and concurred with the Company's treatment of the capital loss amounts based on the new regulations. The Internal Revenue Service and the Company entered into an agreement confirming this treatment. The $34 million reduction of the tax liability from the original tax provision on the sale is presented as a gain on the sale of discontinued operations in the accompanying 2002 consolidated statement of operations.

Concurrent with the closing, JCP entered into a 15-year strategic marketing arrangement with AEGON, N.V. whereby JCP will receive cash payments based on the marketing and sale of various financial and membership services products to JCPenney customers.

DMS net revenues were $553 million and $1,164 million for 2001 and 2000, respectively.

3 EARNINGS PER SHARE

The following potential shares of common stock and their effects on income were excluded from the diluted EPS calculations because the effect would be anti-dilutive:

- At January 25, 2003, January 26, 2002 and January 27, 2001, options to purchase 9 million, 9 million and 18 million shares of common stock at prices ranging from $21 to $71, $23 to $71 and $9 to $71 per share, respectively, were excluded from the 2002, 2001 and 2000 calculations, respectively.

- o The $650 million aggregate principal amount of subordinated notes issued in October 2001 and convertible into approximately 22.8 million shares of common stock were excluded from the 2001 calculation. These notes are convertible at any time prior to maturity, unless previously redeemed, at the option of the holders into shares of common stock at a conversion price of $28.50 per share, subject to certain adjustments.

- o Outstanding preferred stock convertible into 11 million, 12 million and 13 million common shares at January 25, 2003, January 26, 2002 and January 27, 2001, respectively, were excluded from the 2002, 2001 and 2000 calculations, respectively.

- o For 2000, restricted stock units convertible into 1.4 million shares of stock were excluded from the calculations.

The computation of basic and diluted EPS follows:

<Table>
<Caption>

(in millions, except per share data)	INCOME/(LOSS)	AVERAGE SHARES	EPS
<S>	<C>	<C>	<C>
2002			
Income from continuing operations	$ 371		
Less: preferred stock dividends	27		
CONTINUING OPERATIONS - BASIC	344	267	$ 1.28
Effect of dilutive securities:			
Stock options and restricted stock units	--	3	
5% convertible debt	23	23	
CONTINUING OPERATIONS - DILUTED	367	293	1.25
GAIN ON SALE OF DISCONTINUED OPERATIONS	34		
Basic		267	0.13
Diluted		293	0.12
NET INCOME			
Basic	$ 378	267	$ 1.41
Diluted	$ 401	293	$ 1.37
2001			
Income from continuing operations	$ 114		
Less: preferred stock dividends	29		
CONTINUING OPERATIONS - BASIC	85	263	$ 0.32
Stock options and restricted stock units	--	4	
CONTINUING OPERATIONS - DILUTED	85	267	0.32
(LOSS) ON SALE OF DISCONTINUED OPERATIONS	(16)		
Basic		263	(0.06)
Diluted		267	(0.06)
NET INCOME	$ 69		
Basic		263	$ 0.26
Diluted		267	$ 0.26
2000			
(Loss) from continuing operations	$ (568)		
Less: preferred stock dividends	33		
CONTINUING OPERATIONS - BASIC/DILUTED	(601)	262	$ (2.29)
DISCONTINUED OPERATIONS - BASIC/DILUTED	159	262	0.61
(LOSS) ON SALE OF DISCONTINUED OPERATIONS - BASIC/DILUTED	(296)	262	(1.13)

NET (LOSS) - BASIC/DILUTED	$ (738)	262	$ (2.81)

</Table>

4 CASH AND SHORT-TERM INVESTMENTS

Restricted short-term investment balances of $86 million and $114 million for 2002 and 2001, respectively, were included in the total cash and short-term investment balances of $2,474 million and $2,840 million for the same periods. Restricted balances are pledged as collateral for import letters of credit not included in the bank credit facility and for a portion of casualty insurance program liabilities. Cash and short-term investments on the consolidated balance sheet include $6 million of cash for both 2002 and 2001.

5 ECKERD RECEIVABLES SECURITIZATION

In May 2001, Eckerd securitized certain managed care receivables by forming a bankruptcy-remote special purpose entity, ECR Receivables, Inc. (ECR), which in turn entered into a three-year revolving receivables purchase facility agreement with an unrelated entity, Three Rivers Funding Corporation (TRFC), an asset-backed commercial paper conduit sponsored by Mellon Financial Corporation. Effective February 3, 2003, Bryant Park Funding LLC (Bryant Park) and HSBC Bank USA were added as purchasers. Under the facility, Eckerd sells to ECR, on a continuous basis, all of its managed care receivables. ECR then sells to TRFC or Bryant Park an undivided interest in all eligible receivables while maintaining a subordinated interest, in the form of overcollateralization, in a portion of the receivables. JCP, through Eckerd, received cash proceeds of $200 million in May 2001 from the sale. On February 3, 2003, approximately $50 million of cash proceeds was received. Eckerd has agreed to continue servicing the sold receivables at market rates; accordingly, no servicing asset or liability has been recorded.

As of January 25, 2003, securitized managed care receivables totaled $324 million, of which the subordinated retained interest was $124 million. The portion of the receivables in which third parties have an undivided ownership interest qualifies as a sale under the provisions of SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities," and has been reflected as a reduction of receivables in the accompanying consolidated balance sheets. Losses and expenses related to receivables sold under this agreement in 2002 and 2001 totaled $4 million and $5 million, respectively, and are included in other unallocated.

6 FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used in estimating the fair values of financial instruments:

CASH AND SHORT-TERM INVESTMENTS

The carrying amount approximates fair value because of the short maturity of these instruments.

SHORT-TERM AND LONG-TERM DEBT

Carrying value approximates fair value for short-term debt. The fair value of long-term debt, excluding capital leases, is estimated by obtaining quotes from brokers or is based on current rates offered for similar debt. At January 25, 2003, long-term debt, including current maturities, had a carrying value of $5.2 billion and a fair value of $4.9 billion. At January 26, 2002, long-term debt, including current maturities, had a carrying value of $6.1 billion and a fair value of $5.4 billion.

CONCENTRATIONS OF CREDIT RISK

The Company has no significant concentrations of credit risk.

7 OTHER ASSETS

($ in millions)	2002	2001
Prepaid pension	$1,172	$ 892
Capitalized software, net	228	229
Leveraged lease investments	131	132
Real estate investments	106	104
Deferred catalog book costs	73	86
Debt issuance costs, net	46	43
Other	59	48
Total	$1,815	$1,534

8 ACCOUNTS PAYABLE AND ACCRUED EXPENSES

($ in millions)	2002	2001
Accounts payable, primarily trade	$1,792	$1,551
Accrued salaries, vacation and bonus	570	541
Advertising payables	187	136
Customer gift cards/certificates	173	161
Pharmacy payables	131	69
Taxes payable	123	158
Interest payable	122	137
Workers' compensation and general liability insurance	99	102
Rent payable	91	90
Restructuring reserves	37	55
Common dividends payable	34	34
Other(1)	432	431
Total	$3,791	$3,465

(1) Other includes various components that are individually insignificant such as general accrued expenses related to operations and fixed asset accruals. Also included in other is $3 million at year-end 2002 and $4 million at year-end 2001, which represents the remaining balance of a $20 million reserve that was originally established as part of the Company's sale of its proprietary credit card receivables to General Electric Capital Corporation in 1999. This reserve was established to cover potential bad debts on certain types of accounts.

9 SHORT-TERM DEBT

The Company's Brazilian subsidiary, Renner, had short-term debt outstanding of $13 million at January 25, 2003 and $15 million at January 26, 2002.

In May 2002, JCP and J. C. Penney Company, Inc. entered into a three-year, $1.5 billion revolving bank line of credit (credit facility) with a syndicate of banks with JPMorgan Chase Bank as administrative agent. This credit facility replaced a $1.5 billion facility that was scheduled to expire in November 2002 and a $630 million letter of credit facility. The credit facility may be used for general corporate purposes, including the issuance of letters of credit. No borrowings, other than the issuance of trade and standby letters of credit, which totaled $206 million as of the end of 2002, have been made under this credit facility.

Key terms of this credit facility include a financial performance covenant, which consists of a maximum ratio of total debt to consolidated EBITDA (as defined in the credit agreement) as measured on a trailing four quarters basis, calculated at the end of each fiscal quarter. In addition, the amount of outstanding indebtedness under the agreement is subject to a limitation based on the value of collateral to total indebtedness, as defined in the credit facility agreement. At January 25, 2003, the Company was in compliance with all financial covenants of the credit agreement.

Any indebtedness incurred by JCP under the credit facility is collateralized by all eligible domestic department store and catalog inventory, as defined in the credit facility agreement, which can be released as performance improvements are achieved and credit ratings by the rating agencies improve. Pricing is tiered based on the corporate credit ratings for JCP by Moody's and Standard & Poor's. Obligations under the credit facility are guaranteed by J. C. Penney Company, Inc. and JCP Real Estate Holdings, Inc., which is a wholly owned subsidiary of JCP.

10 LONG-TERM DEBT

<Table>
<Caption>

($ in millions)	2002	2001
<S>	<C>	<C>
Issue		
6.125% to 9.0% Notes, due 2002 to 2097	$ 1,928	$ 2,625
7.125% to 8.125% Debentures, due 2016 to 2037	1,525	1,525
6.5% to 7.05% Medium-term notes, due 2002 to 2015	493	700
5.0% Convertible subordinated notes, due 2008	650	650
8.25% to 9.75% Sinking fund debentures, due 2021 to 2022	392	405
6.0% Original issue discount debentures, due 2006	156	146
6.35% to 7.33% Equipment financing notes, due 2007	25	--
Total notes and debentures	5,169	6,051
Capital lease obligations and other	46	48
Less: current maturities	(275)	(920)
Total long-term debt	$ 4,940	$ 5,179

</Table>

Two of the Company's debenture series contain put options where the investor may elect to have the debenture redeemed at par prior to its stated maturity date. These include the 6.9% Notes Due 2026, principal amount $119 million, which may be redeemed August 15, 2003 and the 7.4% Debentures Due 2037, principal amount $400 million, which may be redeemed April 1, 2005. Assuming debenture holders exercise their repayment options, required principal payments on long-term debt and notes payable over the next five years, excluding capital lease obligations, are (in millions) $394 in 2003, $238 in 2004, $624 in 2005, $187 in 2006, $554 in 2007 and $3,172 thereafter.

During 2002, $920 million principal amount of notes matured and was paid.

During 2001, $250 million principal amount of notes matured and was paid.

The $650 million of 5% Convertible Subordinated Notes Due 2008 were issued in October 2001. These notes are convertible at any time prior to maturity, unless previously redeemed, at the option of the holders into shares of the Company's common stock at a conversion price of $28.50 per share, subject to certain adjustments. The notes are subordinated to the Company's senior indebtedness. The notes will not be subordinated to JCP's trade payables or other general creditors of JCP. The notes are structurally subordinated to all indebtedness and other liabilities of the Company and its subsidiaries. JCP may redeem the notes on or after October 20, 2004.

In 2002, JCP borrowed approximately $27 million from Lombard US Equipment Finance Corporation in three separate notes to finance the purchase of equipment for certain department store support centers. The notes, which are secured by the equipment being purchased, mature in 2007, bear interest at rates from 6.35% to 7.33% and are payable in monthly installments. Principal payments of $2 million were made during 2002, resulting in a year-end 2002 balance of $25 million.

See Note 21 for discussion regarding issuance in February 2003 of $600 million principal amount of 8% Notes Due 2010.

DEBT EXCHANGE

JCP issued, pursuant to a private placement, 9.0% Notes Due 2012 with an aggregate principal amount of $230.2 million and a fair value of approximately $225 million in exchange for $227.2 million of old notes tendered in response to a June 2002 exchange offer. Approximately $79.4 million principal amount of 6.125% Notes Due 2003, $67.0 million principal amount of 7.375% Notes Due 2004 and $80.8 million principal amount of 6.9% Debentures Due 2026 were tendered in response to the exchange offer. The Company paid total consent fees of $2.2 million for such tendered notes. In accordance with SFAS No. 145, the net loss of approximately $0.4 million was recorded in interest expense in income from continuing operations for the year. No amendments were made to the indentures governing the old notes.

The Company subsequently filed a registration statement with the Securities and Exchange Commission in order to offer to exchange registered notes for the $230.2 million of notes that were issued in the prior private placement exchange. The registered

notes issued pursuant to this exchange are not subject to transfer restrictions, and carry identical terms as the outstanding notes for which they were exchanged.

11 CAPITAL STOCK

The Company had 48,510 stockholders of record as of January 25, 2003. On a combined basis, the Company's savings plans, including the Company's employee stock ownership plan (ESOP), held 47 million shares of common stock or 16.8% of the Company's common shares after giving effect to the conversion of preferred stock.

PREFERRED STOCK

The Company has authorized 25 million shares of preferred stock; 554,426 and 604,278 shares of Series B ESOP Convertible Preferred Stock were issued and outstanding as of January 25, 2003 and January 26, 2002, respectively. Each share is convertible into 20 shares of the Company's common stock at a guaranteed minimum price of $30 per common share. Dividends are cumulative and are payable semi-annually at an annual rate of $2.37 per common share equivalent, a yield of 7.9%. Shares may be redeemed at the option of the Company or the ESOP under certain circumstances. The redemption price may be satisfied in cash or common stock or a combination of both, at the Company's sole discretion.

PREFERRED STOCK PURCHASE RIGHTS

In January 2002, in connection with the Holding Company formation, the Board of Directors issued one preferred stock purchase right on each outstanding and future share of common stock. JCP's then-existing rights plan, which was established in March 1999 with terms substantially similar to those of the Company's 2002 plan, was simultaneously amended so that it expired. The new rights entitle the holder to purchase, for each right held, 1/1000 of a share of Series A Junior Participating Preferred Stock at a price of $140. The rights are exercisable by the holder upon the occurrence of certain events and are redeemable by the Company under certain circumstances as described by the rights agreement. The rights agreement contains a three-year independent director evaluation (TIDE) provision. This TIDE feature provides that a committee of the Company's independent directors will review the rights agreement at least every three years and, if they deem it appropriate, may recommend to the Board a modification or termination of the rights agreement.

12 STOCK-BASED COMPENSATION

In May 2001, JCP's stockholders approved a new 2001 Equity Compensation Plan (2001 Plan), which initially reserved 16 million shares of common stock for issuance, plus 1.2 million shares reserved but not subject to awards under the Company's 1997 and 2000 equity plans. The 2001 Plan provides for grants to associates of options to purchase the Company's common stock, stock awards or stock appreciation rights. No future grants will be made under the 1997 and 2000 plans. At January 25, 2003, 13.1 million shares of stock were available for future grants. Stock options and awards typically vest over performance periods ranging from one to five years. The number of option shares is fixed at the grant date, and the exercise price of stock options is generally set at the market price on the date of the grant. The 2001 Plan does not permit stock options below grant date market value. Options have a maximum term of 10 years. Over the past several years, the Company's net stock option grants (stock options granted during the year, less any forfeitures or terminations) have averaged about 1.5% of total outstanding stock. The 2001 Plan also provides for grants of stock awards and stock options to outside members of the Board of Directors. Stock options acquired by such directors are not transferable until a director terminates service.

STOCK OPTIONS

At January 25, 2003, options to purchase 22.3 million shares of common stock were outstanding. If all options were exercised, common shares outstanding (including common equivalents of outstanding preferred stock) would increase by 8%. At the end of 2002, 14.6 million, or 65% of the 22.3 million outstanding options, were exercisable. Of those, only 42% were "in-the-money" or had an exercise price below the closing price of $19.39 on January 25, 2003, as shown in the following schedule:

(shares in thousands, price is weighted average exercise price)

<Table>
<Caption>

	Exercisable			Unexercisable			Total		
	Shares	%	Price	Shares	%	Price	Shares	%	Price
In-the-money	6,118	42%	$ 15.43	2,627	34%	$ 15.64	8,745	39%	$ 15.50
Out-of-the-money(1)	8,433	58%	$ 45.43	5,089	66%	$ 20.82	13,522	61%	$ 36.17
Total options outstanding	14,551	100%	$ 32.82	7,716	100%	$ 19.06	22,267	100%	$ 28.05

</Table>

(1) Out-of-the-money options are those with an exercise price equal to or above

the closing price of $19.39 at the end of 2002.

A summary of stock option activity follows:

(shares in thousands, price is weighted average exercise price)

<Table>
<Caption>

	OUTSTANDING		EXERCISABLE	
	SHARES	PRICE	SHARES	PRICE
<S>	<C>	<C>	<C>	<C>
January 29, 2000	11,832	$ 43	6,913	$ 48
Granted	7,294(1)	16		
Canceled/forfeited	(959)	35		
January 27, 2001	18,167	$ 33	6,592	$ 48
Granted	3,402	16		
Exercised	(56)	17		
Canceled/forfeited	(2,823)	29		
January 26, 2002	18,690	$ 30	5,840	$ 48
Granted	4,993	20		
Exercised	(610)	15		
Canceled/forfeited	(806)	38		
January 25, 2003	22,267	$ 28	14,551	$ 33

</Table>

(1) Includes 3.5 million options granted to the Company's chairman pursuant to his 2000 employment agreement at an exercise price of $16.06, while the stock price on the grant date was $13.63. These options vest over a five-year period.

The following table summarizes stock options outstanding at January 25, 2003:

(shares in thousands, price is weighted average)

<Table>
<Caption>

	OUTSTANDING			EXERCISABLE	
EXERCISE PRICE RANGE	SHARES	PRICE	REMAINING TERM (YEARS)	SHARES	PRICE
<S>	<C>	<C>	<C>	<C>	<C>
$ 9.32-$14.66	2,764	$ 14.26	7.89	2,457	$ 14.54
$14.87-$18.29	5,970	16.07	7.35	3,654	16.03
$18.44-$24.80	4,974	20.32	9.05	87	20.57
$25.31-$36.06	4,051	35.31	5.61	3,905	35.59
$36.19-$48.50	2,701	46.14	2.73	2,641	46.18
$50.91-$71.28	1,807	66.60	3.35	1,807	66.60
Total	22,267	$ 28.05	6.62	14,551	$ 32.82

</Table>

The Company follows the intrinsic value expense recognition provisions of APB 25 as permitted by SFAS No. 123. As a result, no compensation expense is recognized for stock options. As required by SFAS No. 123, the Company estimates the pro forma effect of recording the estimated Black-Scholes fair value of stock options as expense over the vesting period (see Note 1).

RESTRICTED STOCK

The Company awarded approximately 227,000, 133,000 and 1.5 million shares of restricted stock with weighted-average grant-date fair values per share of $20.09, $15.94 and $13.60, respectively, in 2002, 2001 and 2000, respectively. Total expense recorded for stock-based employee compensation awards was $5.1 million, $7.5 million and $6.1 million in 2002, 2001 and 2000, respectively.

13 INTEREST EXPENSE, NET

($ in millions)	2002	2001	2000
Short-term debt	$ 4	$ --	$ 13
Long-term debt	403	426	464
Short-term investments	(41)	(50)	(45)
Other, net	22	10	(5)
Total	$ 388	$ 386	$ 427

14 LEASES

The Company conducts the major part of its operations from leased premises that include retail stores, catalog fulfillment centers, warehouses, offices and other facilities. Almost all leases will expire during the next 20 years; however, most leases will be renewed or replaced by leases on other premises. Rent expense for real property operating leases totaled $734 million in 2002, $705 million in 2001 and $711 million in 2000, including contingent rent, based on sales, of $59 million, $58 million and $59 million for the three years, respectively.

JCP also leases data processing equipment and other personal property under operating leases of primarily three to five years. Rent expense for personal property leases was $147 million in 2002, $128 million in 2001 and $152 million in 2000.

Future minimum lease payments for non-cancelable operating and capital leases, net of executory costs, principally real estate taxes, maintenance and insurance, and subleases, as of January 25, 2003, were:

($ in millions)	Operating	Capital
2003	$ 671	$ 17
2004	611	16
2005	544	12
2006	494	4
2007	455	2
Thereafter	4,128	--
Total minimum lease payments	$ 6,903	$ 51
Present value	$ 3,581	$ 43
Weighted average interest rate	9.9%	9.2%

15 RETIREMENT BENEFIT PLANS

The Company provides retirement and other post-retirement benefits to substantially all employees (associates), except for associates hired or rehired on or after January 1, 2002 who are not eligible for retiree medical or dental coverage. These benefits are an important part of the Company's total compensation and benefits program designed to attract and retain qualified and talented associates. The Company's retiree benefit plans consist principally of a non-contributory pension plan, non-contributory supplemental retirement and deferred compensation plans for certain management associates, a contributory medical and dental plan, and a 401(k) and employee stock ownership plan. Total Company expense/(income) for all retirement-related benefit plans was $139 million, $34 million and $(35) million in 2002, 2001 and 2000, respectively. These plans are described in more detail below. See Management's Discussion and Analysis under Critical Accounting Policies on pages 5-7 for additional discussion of the Company's defined benefit pension plan and Note 1 on page 23 for the Company's accounting policies regarding retirement-related benefits.

DEFINED BENEFIT PENSION PLANS -- FUNDED

The Company and certain of its subsidiaries provide associates who have completed at least 1,000 hours of service generally in a 12 consecutive month period and have attained age 21 with a non-contributory pension plan. The plan is funded by Company contributions to a trust fund, which is held for the sole benefit of participants and beneficiaries. Participants generally become 100% vested in the plan after five years of employment or at age 65. Pension benefits are calculated based on an associate's average final pay, an average of the social security wage base, and the associate's credited service (up to 35 years), as defined in the plan document. In 2001, the Company adopted an amendment to its pension to freeze benefits and participation for substantially all drugstore associates effective July 31, 2001. In its place, Eckerd adopted a new 401(k) plan which is discussed on page 35. The change in the pension plan was accounted for as a curtailment gain in accordance with SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits." The reduction in the projected benefit obligation of approximately $11 million was recorded in Eckerd segment results for 2001 as a reduction of SG&A expenses.

The Company's funding policy is to maintain a well funded plan throughout all business and economic cycles. The primary pension plan is well diversified with an asset allocation policy that provides for a 70%, 20% and 10% mix of equities (U.S., non-U.S. and private), fixed income (investment grade and high yield) and real estate (private and public), respectively. Although no additional funding was required under ERISA, the Company made a voluntary contribution of $300 million, or $190 million after tax, to its pension plan in October 2002. The assets of the pension plan consist primarily of a balanced portfolio of equity and debt securities managed by third party investment managers.

SUPPLEMENTAL RETIREMENT PLANS -- UNFUNDED

The Company has unfunded supplemental retirement plans, which provide retirement benefits to certain management associates and other key employees. The primary plans are a Supplemental Retirement Plan and a Benefit Restoration Plan. Supplemental benefits are based on length of service and final average compensation. The Benefit Restoration Plan is intended to make up benefits that could not be paid by the qualified pension plan due to governmental limits on the amount of benefits and the level of pay considered in the calculation of benefits. The Supplemental Retirement Plan also offers participants who leave the Company between ages 60 and 62 benefits equal to the estimated social security benefits payable at age 62. Participation in this plan is limited to associates who were profit-sharing management associates at the end of 1995. Also included in the unfunded plans is a Voluntary Early Retirement Program, which was offered in 1997 to management associates who were at least age 55 with a minimum of 10 years of service and who elected to take early retirement. Several other smaller plans and agreements are also included.

Net periodic pension cost for the defined benefit plans follows:

PENSION PLANS EXPENSE/(INCOME)

<Table>

<Caption>

($ in millions)	2002	2001	2000
<S>	<C>	<C>	<C>
Service costs	$ 71	$ 82	$ 92
Interest costs	193	189	186
Projected return on assets	(283)	(348)	(354)
Net amortization	40	3	(19)
Curtailment gain	--	(11)	--
Net periodic pension plans expense/(income)	$ 21	$ (85)	$ (95)

</Table>

SUPPLEMENTAL PLANS EXPENSE

<Table>
<Caption>

($ in millions)	2002	2001	2000
<S>	<C>	<C>	<C>
Service costs	$ 3	$ 3	$ 3
Interest costs	22	22	23
Projected return on assets	--	--	--
Net amortization	9	5	6
Net supplemental plans expense	$ 34	$ 30	$ 32

</Table>

The following provides a reconciliation of benefit obligations, plan assets and the funded status of the defined benefit pension and supplemental retirement plans:

ASSETS AND OBLIGATIONS

<Table>
<Caption>

	PENSION PLANS		SUPPLEMENTAL PLANS	
($ in millions)	2002	2001	2002	2001
<S>	<C>	<C>	<C>	<C>
CHANGE IN PROJECTED BENEFIT OBLIGATION				
Beginning of year	$ 2,754	$ 2,574	$ 310	$ 321
Service and interest costs	264	272	25	25
Actuarial loss	88	73	39	11
Benefits (paid)	(187)	(184)	(28)	(28)
Amendments and other	--	19	12	(19)
End of year	$ 2,919	$ 2,754	$ 358	$ 310
CHANGE IN FAIR VALUE OF PLAN ASSETS				
Beginning of year	$ 3,074	$ 3,753	$ --	$ --
Company				

contributions	300	2	28	28
Actual return on assets	(215)	(497)	--	--
Benefits (paid)	(187)	(184)	(28)	(28)
End of year	$ 2,972	$ 3,074	$ --	$ --
FUNDED STATUS OF PLAN				
Excess of fair value over projected benefits	$ 53	$ 320	$ (358)	$ (310)
Unrecognized losses and prior service cost	1,119	572	116	85
Prepaid pension cost/(accrued liability)	$ 1,172	$ 892	$ (242)	$ (225)

</Table>

At the measurement date of October 31, 2002, the fair value of pension plan assets exceeded both the projected benefit obligation and the accumulated benefit obligation. Therefore, the Company was not required to reflect a minimum liability adjustment under SFAS No. 87, which would have removed the prepaid pension cost of $1,172 million with the offset of approximately $700 million net of taxes charged against stockholders' equity. The prepaid pension cost carried on the Company's balance sheet as of year-end 2002 represents pension funding as well as return on plan assets in excess of pension expense recognized through the statement of operations. The prepaid pension cost has accumulated from the inception of the pension plan in 1966 principally as a result of the Company's policy to target a funded ratio in the range of 110% to 130%.

As a result of the weakness in the global equity markets over the past several years, the pension surplus of the defined benefit pension plans has declined from approximately $1.2 billion in 2000 to a surplus of $53 million at the measurement date in 2002. The decline is reflected in the unrecognized losses of $1,119 million and will be amortized, subject to a corridor as permitted under SFAS No. 87, as pension expense over the average remaining service period of the covered workforce. Such amortization will reduce the prepaid pension cost.

In addition to the accrued liability for the supplemental retirement plans, the additional minimum liability balance was $97 million and $84 million in 2002 and 2001, respectively.

The following table presents significant assumptions used:

ASSUMPTIONS

<Table>
<Caption>

	2002	2001	2000
<S>	<C>	<C>	<C>
Discount rate	7.10%	7.25%	7.75%
Expected return on assets	8.9%	9.5%	9.5%
Salary progression rate	4.0%	4.0%	4.0%
Measurement date	10/31	10/31	10/31

</Table>

Given lower asset returns over the past few years and lower expected future returns, the Company lowered the expected rate of return on plan assets from 9.5% to 8.9% as of October 31, 2002, which will be used to develop the pension expense for 2003. The Company used 9.5% to develop the 2002 pension expense, which was the expected rate of return as of October 31, 2001. The effect of the lower expected return will be reflected in the calculation of net periodic pension cost for fiscal 2003.

OTHER POST-RETIREMENT BENEFIT PLANS

The Company provides medical and dental benefits to retirees based on age and years of service. Benefits under these plans are unfunded. The Company provides a defined dollar commitment toward retiree medical costs. In 2001, the Company amended these plans to further reduce and limit Company contributions. These changes were accounted for as a negative plan amendment in accordance with SFAS No. 106. Accordingly, the effects of reducing the benefit obligation are being amortized over the remaining years of service to eligibility of the active plan participants. The Company began recognizing the costs under the amended plans in the third quarter of 2001. The decrease in the net periodic post-retirement benefit cost from 2000 to 2002 is due to the changes discussed above.

The net periodic post-retirement benefit cost follows:

POST-RETIREMENT BENEFIT COST

<Table>
<Caption>

($ in millions)	2002	2001	2000
Service costs	$ 3	$ 4	$ 3
Interest costs	16	24	26
Net amortization	(16)	(8)	(4)
Net periodic post-retirement benefit cost	$ 3	$ 20	$ 25

</Table>

A reconciliation of the benefit obligation follows:

BENEFIT OBLIGATION

<Table>
<Caption>

($ in millions)	2002	2001
Accumulated benefit obligation	$ 193	$ 235
Net unrecognized losses and prior service cost	111	80
Net medical and dental liability	$ 304	$ 315

</Table>

The Company's post-retirement benefit plans were amended in 2001 to reduce the per capita dollar amount of the benefit costs that would be paid by the Company. Thus, changes in the assumed or actual health care cost trend rates do not materially affect the accumulated post-retirement benefit obligation or the Company's annual expense. Company-provided costs for retirees over age 80 on January 1, 2002 do still increase by up to 5% per year. The Company has assumed that the full 5% increase will be granted in each future year.

DEFINED CONTRIBUTION PLANS

The Company's Savings, Profit-Sharing and Stock Ownership Plan is a defined contribution plan available to all eligible associates of JCP and certain subsidiaries. Additionally, the Company has a Mirror Plan, which is offered to certain management associates. Associates who have completed at least 1,000 hours of service within an eligibility period (generally 12 consecutive months) and have attained age 21 are eligible to participate in the plan. Vesting of Company contributions occurs over a five-year period. The Company contributes to the plan an amount equal to 4.5% of the Company's available profits, which totaled $27 million and $10 million in 2002 and 2001, respectively. Additionally, discretionary matching contributions of Company stock were made totaling $20 million and $48 million in 2002 and 2001, respectively. Associates have the option of reinvesting matching contributions made in Company stock into a variety of investment options, primarily mutual funds.

Effective January 1, 2002, Eckerd adopted a new 401(k) plan for all eligible drugstore associates. Account balances for Eckerd associates who were participants in the Company's Savings, Profit Sharing and Stock Ownership Plan were transferred to the new plan. Eckerd provides eligible drugstore associates with a guaranteed match of $1.50 for each $1.00 contributed on the first 2% of pay and a $1.00 for $1.00 match on the next 1% of pay, and Eckerd contributions vest immediately. Eckerd matching contributions were $31 million in 2002.

Total Company expense for defined contribution plans for 2002, 2001 and 2000 was $81 million, $69 million and $3 million, respectively.

16 OTHER UNALLOCATED

Other unallocated contains items that are related to corporate initiatives or activities, which are not allocated to an operating segment and consisted of the following:

<Table>
<Caption>

($ in millions)	2002	2001	2000
<S>	<C>	<C>	<C>
Asset impairments, PVOL and other unit closing costs	$ 105	$ 63	$ 488
Centralized merchandising process (ACT) costs	--	36	55
Gains from sale of real estate partnership interests	--	(57)	--
Real estate activities	(41)	(31)	(42)
Third party fulfillment losses	10	19	--
Eckerd receivables financing	4	5	--
Other	15	11	14
Total	$ 93	$ 46	$ 515

</Table>

The Company recorded charges of $105 million in 2002 related primarily to asset impairments and PVOL for certain department stores in the United States and Mexico and certain catalog and other facilities. The impairment charges resulted from the Company's ongoing process to evaluate the productivity of its asset base.

The Company recorded charges of $63 million in 2001, comprising asset impairments and PVOL, and included $21 million of restructuring charges that principally represented adjustments to the 2000 store closing plan and a modification to include two additional units.

In 2000, the Company recorded restructuring charges of $488 million, which included a major store closing plan (2000 plan) for both department stores and drugstores. The major actions comprising the plan to close stores consisted of the identification of stores that did not meet the Company's profit objectives, establishment of closing dates (to coincide with termination rights and/or other trigger dates contained in leases, if applicable) and notification of affected parties (e.g., employees, landlords and community representatives) in accordance with the Company's store closing procedures. These closings were over and above normal store closures within a given year. Substantially all of the stores were leased, and the Company is not responsible for the disposal of property, other than fixtures, which for the most part was abandoned.

As part of the 2000 plan, including the 2001 modification, the Company closed a total of 94 underperforming JCPenney stores and 279 drugstores. Store closing costs included PVOL, asset

impairments, severance and other exit costs. Store assets consist primarily of furniture and fixtures, and buildings and improvements. Asset impairment charges were determined in accordance with SFAS No. 121 and represented the excess of the carrying value of the assets over their estimated fair value. The store closing plans anticipated that the Company would remain liable for all future lease payments. The PVOL was calculated, net of assumed sublease income, using discount rates ranging from 5.2% to 7.0%. A reserve was established for PVOL based on an average of three to six years of lease payments or a negotiated termination fee.

During 2000, the Company evaluated its investments in long-lived assets to be held and used in operations on an individual store basis, and determined that, based on historical operating results and updated operating projections, asset carrying values on 13 stores were not supported by projected undiscounted cash flows. Accordingly, an impairment charge was recorded to write down the carrying value of store assets to their estimated fair value, which was determined based on projected discounted cash flows.

Other restructuring costs in 2000 included costs related to the termination of Eckerd's contract with its primary third party information technology service provider and the remaining lease payments associated with the termination of a computer hardware contract, headcount reductions, an asset impairment on Eckerd's web site development initiative and the gain on the sale of a note receivable associated with the divestiture of certain drugstore locations pursuant to a Federal Trade Commission agreement.

ACT (Accelerating Change Together) was a fundamental rebuilding of the department store process and organization, creating a centralized buying organization. ACT required process and organizational restructuring throughout the company's corporate and field structure for department stores. Incremental ACT costs over the two-year transition period (2000-2001) totaled $91 million. Including $20 million of capitalized hardware and software costs, total ACT expenditures were $111 million. Beginning in 2002, costs associated with centralized merchandising resulting from the ACT initiative are included in segment operating results for Department Stores and Catalog.

Gains in 2001 of $57 million were recorded primarily on the sale of two real estate partnership interests.

Real estate activities include operating income for the Company's real estate subsidiary and gains or losses on the sale of facilities that are no longer used in Company operations.

The Company incurred operating losses related to third party fulfillment operations that were discontinued in 2002.

Losses and expenses related to receivables sold as part of the Eckerd receivables securitization are recorded in other unallocated. See Note 5 for more information about the securitization of Eckerd receivables.

17 ROLLFORWARD OF RESTRUCTURING RESERVES

The following table presents the 2002 activity and balances of the reserves established in connection with the Company's restructuring initiatives:

<Table>
<Caption>

($ in millions)	BALANCE 1/26/02	CASH PAYMENTS	OTHER ADJUSTMENTS	BALANCE 1/25/03
<S>	<C>	<C>	<C>	<C>
PVOL	$ 164	$ (58)	$ 5	$ 111

Severance	1	(1)	--	--
Contract cancellations	9	(5)	(2)	2
Total	$ 174	$ (64)	$ 3	$ 113

</Table>

The current portion of the reserve is $37 million and $55 million for 2002 and 2001, respectively, and is included in accounts payable and accrued expenses. Costs are being charged against the reserves as incurred. Imputed interest expense associated with the discounting of these lease obligations is included in other unallocated. Reserves are reviewed for adequacy on a periodic basis and are adjusted as appropriate. The balance of the reserves relates principally to the future lease obligations for both department stores and drugstores closed as part of restructuring programs in prior years. Most of the remaining cash payments are expected to be made by the end of 2005.

18 TAXES

Deferred tax assets and liabilities reflected in the Company's consolidated balance sheet as of January 25, 2003 were measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The major components of deferred tax assets/(liabilities) as of January 25, 2003 and January 26, 2002 were as follows:

<Table>
<Caption>

($ in millions)	2002	2001
<S>	<C>	<C>
DEFERRED TAX ASSETS		
Pension and other retiree obligations	$ 248	$ 248
Workers' compensation/general liability	136	127
Accrued vacation pay	68	65
Closed unit reserves	42	44
State taxes and net operating losses	210	190
Other(1)	115	160
Total deferred tax assets	819	834
Less valuation allowance	(97)	(85)
Net deferred tax assets	$ 722	$ 749
DEFERRED TAX LIABILITY		
Depreciation and amortization	(1,135)	(1,067)
Prepaid pension	(446)	(340)
Leveraged leases	(287)	(297)
Inventories	(154)	(151)
Other(2)	(171)	(224)
Total deferred tax (liabilities)	(2,193)	(2,079)
Net deferred tax (liabilities)	$ (1,471)	$ (1,330)

</Table>

(1) Includes certain accrued items not deductible for tax purposes until paid, such as deferred compensation and severance benefits. Also includes certain deferred income items currently recognized for tax purposes.

(2) Includes deferred tax items related to prepaid expenses, property taxes and original issue discount.

Management's assessment is that the character and nature of future taxable income may not allow the Company to realize certain tax benefits of state net operating losses (NOLs) within the prescribed carryforward period. Accordingly, a valuation allowance has been established for the amount of deferred tax assets generated by state NOLs which may not be realized.

U.S. income and foreign withholding taxes were not provided on certain unremitted earnings of international affiliates that the Company considers to be permanent investments.

The components of the provision for income taxes are as follows:

INCOME TAX EXPENSE

($ in millions)	2002	2001	2000
CURRENT			
Federal and foreign	$ 58	$ 10	$ (223)
State and local	14	(7)	--
	72	3	(223)
DEFERRED			
Federal and foreign	130	68	(68)
State and local	11	18	(27)
	141	86	(95)
Total	$ 213	$ 89	$ (318)

A reconciliation of the statutory federal income tax rate to the effective rate is as follows:

RECONCILIATION OF TAX RATES

(percent of pre-tax income)	2002	2001	2000
Federal income tax at statutory rate	35.0%	35.0%	(35.0)%
State and local income tax, less federal income tax benefit	2.7%	3.4%	(2.0%)
Tax effect of dividends on ESOP shares	(4.5)%	(3.5)%	(1.1)%
Non-deductible goodwill	--	11.1%	2.6%
Mexico asset impairments	2.6%	--	--
Other permanent differences and credits	0.7%	(2.3)%	(0.4)%
Effective tax rate	36.5%	43.7%	(35.9)%

The tax rate in 2002 decreased due principally to recent changes in the tax law related to the deductibility of dividends paid to the Company's savings plan and the effects of adopting SFAS No. 142 (amortization of goodwill).

19 LITIGATION, OTHER CONTINGENCIES AND GUARANTEES

The Company is subject to various legal and governmental proceedings involving routine litigation incidental to the business. This includes the Company being a co-defendant in a class action lawsuit involving the sale of insurance products by a former subsidiary of the Company. While no assurance can be given as to the ultimate outcome of these matters, management currently believes that the final resolution of these actions, individually or in the aggregate, will not have a material adverse effect on the annual results of operations, financial position, liquidity or capital resources of the Company.

In 2002, management engaged an independent engineering firm to evaluate the Company's established reserves for potential environmental liability associated with facilities, most of which the Company no longer operates. Funds spent to remedy these sites are charged against such reserves. A range of possible loss exposure was developed and the reserve was increased to an amount that the Company believes is adequate to cover estimated potential liabilities.

Four of the 10 JCPenney department store support centers (SSCs) are operated by outside service providers. Two of the three SSCs scheduled to open in 2003 will also be outsourced. These openings are planned for the first half of 2003. As part of the operating service agreement between JCP and the third party providers, JCP shall assume financial responsibility for the building and equipment leases upon termination of services by either party for any reason. Potential obligations of JCP total $185 million.

JCP, through a wholly owned subsidiary, has investments in 15 partnerships that own regional mall properties, seven as general partner and eight as a limited partner. The Company's potential exposure to risk is greater in partnerships that it participates in as a general partner rather than as a limited partner. Mortgages on the seven general partnerships total approximately $350 million. These mortgages are non-recourse to the Company, so any financial exposure is minimal. In addition, the subsidiary has guaranteed loans totaling approximately $43 million related to investments in one real estate investment trust (REIT). In the event of possible default, the creditors would recover first from the proceeds of the sale of the properties, next from the general partner, then from other guarantors before JCP's guarantee would be invoked. Management does not believe that any potential financial exposure related to these guarantees would have a material impact on the Company's financial position or results of operations.

As part of the 2001 DMS sale, JCP signed a guarantee agreement with a maximum exposure of $20 million. This relates to the 1994 sale of a block of long-term care business by a former subsidiary of JCP to a third party. As part of the 1994 sale agreement, the purchaser was required to maintain adequate reserves in a trust. JCP's guarantee is the lesser of any reserve shortfall or $20 million. Any potential claims or losses are first recovered from established reserves, then from the purchaser and finally from any state insurance guarantee fund before JCP's guarantee would be invoked. It is uncertain if, or when, JCP would be required to pay any claims under this guarantee.

20 SEGMENT REPORTING

Reportable segments were determined based on similar economic characteristics, the nature of products and services and the method of distribution. Performance of the segments is evaluated based on segment operating profit/(loss). Segment operating profit/(loss) is LIFO gross margin less SG&A expenses. Segment assets include goodwill and other intangibles; however, segment operating profit does not include the amortization related to these assets. Other unallocated is provided for purposes of reconciling to total Company amounts. Segments are as follows:

BUSINESS SEGMENT INFORMATION

<Table>
<Caption>

($ in millions)	DEPARTMENT STORES AND CATALOG	ECKERD DRUGSTORES	OTHER UNALLOCATED	TOTAL COMPANY
<S>	<C>	<C>	<C>	<C>
2002				
Retail sales, net	$ 17,704	$ 14,643	$ --	$ 32,347

Segment operating profit	695	412	--	1,107
Other unallocated			(93)	(93)
Net interest expense			(388)	(388)
Acquisition amortization			(42)	(42)
Income from continuing operations before income taxes				584
Total assets	10,974	6,724	169	17,867
Capital expenditures	317	341	--	658
Depreciation and amortization expense	368	253	46	667
2001				
Retail sales, net	$ 18,157	$ 13,847	$ --	$ 32,004
Segment operating profit	548	208	--	756
Other unallocated			(46)	(46)
Net interest expense			(386)	(386)
Acquisition amortization			(121)	(121)
Income from continuing operations before income taxes				203
Total assets	11,178	6,688	182	18,048
Capital expenditures	332	299	--	631
Depreciation and amortization expense	370	226	121	717
2000				
Retail sales, net	$ 18,758	$ 13,088	$ --	$ 31,846
Segment operating profit/(loss)	254	(76)	--	178
Other unallocated			(515)	(515)
Net interest expense			(427)	(427)
Acquisition amortization			(122)	(122)
(Loss) from continuing operations before income taxes				(886)
Total assets	9,640	6,966	3,185(1)	19,791
Capital expenditures	361	317	--	678
Depreciation and amortization expense	360	213	122	695

</Table>

(1) Includes assets of discontinued operations of $3,027 million.

21 SUBSEQUENT EVENTS

On February 28, 2003, JCP issued $600 million principal amount of 8.0% Notes Due 2010 priced at 99.342% of their principal amount to yield 8.125%. The Notes pay interest on March 1 and September 1 each year. The Notes are redeemable in whole or in part, at the Company's option at any time, at a redemption price equal to the greater of (i) 100% of the principal amount of such Notes and (ii) the sum of the present values of the remaining scheduled payments, discounted to the redemption date on a semi-annual basis at the "treasury rate" plus 50 basis points together in either case with accrued interest to the date of redemption. In addition, the Company received approximately $50 million of cash proceeds on February 3, 2003 when additional Eckerd managed care receivables were securitized under an amended agreement. See Note 5 for further discussion.

QUARTERLY DATA (UNAUDITED)

<Table>
<Caption>

	FIRST		SECOND		THIRD		FOURTH	
($ in millions, except per share data)	2002	2001	2002	2001	2002	2001	2002	2001

<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Retail sales, net	$ 7,728	$ 7,522	$ 7,198	$ 7,211	$ 7,872	$ 7,729	$ 9,549	$ 9,542
LIFO gross margin	2,353	2,234	2,135	2,037	2,402	2,283	2,884	2,661
Income/(loss) from continuing operations	86	41	(6)	(53)	89	31	202	95
(Loss)/gain on sale of discontinued operations	--	--	--	(16)	34	--	--	--
Net income/(loss)	86	41	(6)	(69)	123	31	202	95
Earnings/(loss) per common share, diluted:								
Continuing operations	0.29	0.13	(0.05)	(0.23)	0.30	0.09	0.68	0.32
(Loss)/gain on sale of discontinued operations	--	--	--	(0.06)	0.12	--	--	--
Net income/(loss)	0.29	0.13	(0.05)	(0.29)	0.42	0.09	0.68	0.32
Dividend per common share	0.125	0.125	0.125	0.125	0.125	0.125	0.125	0.125
Common stock price range:								
High	25.00	20.73	25.70	29.50	19.27	28.85	25.55	27.82
Low	18.83	12.98	14.50	19.30	14.07	18.64	18.45	20.90
Close	21.46	20.66	17.55	27.14	18.92	23.90	19.39	23.70

</Table>

FIVE-YEAR FINANCIAL SUMMARY (UNAUDITED)

<Table>
<Caption>

($ in millions, except per share data and employee counts)	2002	2001	2000	1999	1998
<S>	<C>	<C>	<C>	<C>	<C>
RESULTS FOR THE YEAR					
Retail sales, net	$ 32,347	$ 32,004	$ 31,846	$ 31,743	$ 29,761
Percent increase/(decrease)	1.1%	0.5%	0.3%	6.7%	(0.1%)
Income/(loss) from continuing operations	371	114	(568)	174	438
Return on beginning stockholders' equity - continuing operations	6.0%	1.8%	(7.9%)	2.5%	6.0%
PER COMMON SHARE					
Income/(loss) from continuing operations(1)	$ 1.25	$ 0.32	$ (2.29)	$ 0.54	$ 1.58
Dividends	0.50	0.50	0.825	1.92	2.18
Stockholders' equity	22.78	22.20	22.68	26.17	26.74
FINANCIAL POSITION					
Capital expenditures	$ 658	$ 631	$ 678	$ 722	$ 800
Total assets	17,867	18,048	19,791	20,908	23,605
Long-term debt, including current maturities	5,215	6,099	5,698	6,469	7,581
Stockholders' equity	6,370	6,129	6,259	7,228	7,102
OTHER					
Common shares outstanding at end of year	269	264	263	261	250
Weighted average common shares:					
Basic	267	263	262	259	253
Diluted	293	267	262	259	254
Number of employees at end of year (in thousands)	228	238	267	287	267

</Table>

(1) Calculation excludes the effects of anti-dilutive common stock equivalents.

FIVE-YEAR OPERATIONS SUMMARY (UNAUDITED)

<Table>
<Caption>

	2002	2001	2000	1999	1998
<S>	<C>	<C>	<C>	<C>	<C>

DEPARTMENT STORES AND CATALOG					
Number of department stores					
JCPenney department stores:					
Beginning of year	1,075	1,111	1,143	1,148	1,203
Openings(1)	3	13	10	14	12
Closings(1)	(29)	(49)	(42)	(19)	(67)
End of year	1,049	1,075	1,111	1,143	1,148
Renner department stores	54	54	49	35	21
Total department stores	1,103	1,129	1,160	1,178	1,169
Gross selling space (square feet in millions)	107.2	110.2	114.1	116.4	116.0
Sales ($ in millions)	$ 15,091	$ 14,808	$ 14,585	$ 15,026	$ 15,226
Sales per gross square foot(2)	140	133	127	130	130
Number of catalog units:					
Department stores	1,036	1,068	1,107	1,141	1,145
Third party merchants, outlet stores and freestanding sales centers	462	454	508	489	512
Drugstores	61	92	92	430	139
Total catalog units	1,559	1,614	1,707	2,060	1,796
Total catalog sales ($ in millions)	$ 2,613	$ 3,349	$ 4,173	$ 4,290	$ 4,210
ECKERD DRUGSTORES					
Number of drugstores:					
Beginning of year	2,641	2,640	2,898	2,756	2,778
Openings(3)	109	76	174	266	220
Acquisitions	8	2	6	163	36
Closings(3)	(72)	(77)	(438)	(287)	(278)
End of year	2,686	2,641	2,640	2,898	2,756
Gross selling space (square feet in millions)	27.5	27.2	27.0	29.2	27.6
Sales ($ in millions)	$ 14,643	$ 13,847	$ 13,088	$ 12,427	$ 10,325
Sales per gross square foot(2)	490	470	444	395	350

</Table>

(1) Includes relocations of 3, 9, 3, 3 and 6 department stores in 2002, 2001, 2000, 1999 and 1998, respectively.

(2) Calculation includes the sales of stores that were open for a full year as of each year end. Eckerd also includes sales of relocated drugstores.

(3) Includes relocations of 50, 57, 136, 208 and 175 drugstores in 2002, 2001, 2000, 1999 and 1998, respectively.

SUPPLEMENTAL DATA (UNAUDITED)

The following information is provided as a supplement to the Company's audited financial statements.

EBITDA

Earnings before interest, taxes, depreciation and amortization is a key measure of cash flow generated and is provided as an alternative assessment of operating performance. It is not intended to be a substitute for generally accepted accounting principles (GAAP) measurements and may vary for other companies. EBITDA includes the effects of certain charges and credits not reflective of normal operating performance. For a discussion of these transactions, see pages 8-11 in Management's Discussion and Analysis.

The following calculation of segment EBITDA includes segment operating profit before depreciation and amortization.

<Table>

<Caption>

($ in millions)	2002	2001	2000
<S>	<C>	<C>	<C>
DEPARTMENT STORES AND CATALOG			
Segment operating profit(1)	$ 695	$ 548	$ 254
Depreciation and amortization	368	370	360
Department Stores and Catalog segment EBITDA	$ 1,063	$ 918	$ 614
ECKERD DRUGSTORES			
Segment operating profit/(loss)(1)	$ 412	$ 208	$ (76)
Depreciation and amortization	253	226	213
Eckerd Drugstores segment EBITDA	$ 665	$ 434	$ 137
TOTAL SEGMENTS			
Segment operating profit(1)	$ 1,107	$ 756	$ 178
Depreciation and amortization	621	596	573
Total segments EBITDA	$ 1,728	$ 1,352	$ 751

</Table>

(1) Segment operating profit/(loss) excludes net interest expense and income taxes.

The table below reconciles income/(loss) from continuing operations to total segment EBITDA:

<Table>
<Caption>

($ in millions)	2002	2001	2000
<S>	<C>	<C>	<C>
Income/(loss) from continuing operations	$ 371	$ 114	$ (568)
Add back:			
Income taxes	213	89	(318)
Acquisition amortization	42	121	122
Net interest expense	388	386	427
Other unallocated	93	46	515
Segment depreciation and amortization	621	596	573
Total segments EBITDA	$ 1,728	$ 1,352	$ 751

</Table>

DEBT-TO-CAPITAL

Management considers all on- and off-balance sheet debt in evaluating the Company's overall liquidity position and capital structure. As operating leases and securitized receivables are a fundamental part of the Company's operations, management believes that this approach is the most realistic view of financial leverage. The more traditional debt-to-capital ratio is presented for comparison purposes.

<Table>
<Caption>

($ in millions)	2002	2001	2000
<S>	<C>	<C>	<C>
Short-term investments, net of short-term debt	$ (2,455)	$ (2,819)	$ (935)
Long-term debt(1)	5,215	6,099	5,698

Net debt	2,760	3,280	4,763
Off-balance sheet debt:			
PVOL:			
Department Stores and Catalog	659	794	838
Eckerd Drugstores	2,922	2,764	2,631
Securitization of receivables, net	200	200	--
Total debt	6,541	7,038	8,232
Consolidated equity	6,370	6,129	6,259
Total capital	$ 12,911	$ 13,167	$ 14,491
Debt-to-capital, including off-balance sheet debt	50.7%	53.5%	56.8%
Debt-to-capital	30.2%	34.9%	43.2%

</Table>

(1) Includes current maturities, capital lease obligations and other.

In 2002, free cash flow of more than $500 million improved the Company's debt-to-capital ratio as a result of better operating performance, inventory and working capital management, and lower than planned capital expenditures.

The Company's debt-to-capital ratio improved in 2001 primarily as a result of the cash received from the sale of DMS assets.

CREDIT RATINGS

As of March 21, 2003, ratings were as follows:

<Table>
<Caption>

<S>	SENIOR IMPLIED <C>	LONG-TERM DEBT <C>
Moody's Investors Service, Inc.	Ba2	Ba3
Standard & Poor's Ratings Services	BBB-	BBB-
Fitch Ratings	N/A	BB

</Table>

In October 2002, the Company's strong liquidity position was recognized by Moody's Investors Service, which assigned the Company its highest liquidity rating (SGL-1).

COMMON STOCK HOLDINGS

The following table shows the approximate ownership percentage of the Company's common stock by major category as of January 25, 2003:

<Table>
<Caption>

<S>	% OWNERSHIP <C>
Institutional	70%
Company savings plans	17%
Individual and other	13%

</Table>

CORPORATE GOVERNANCE

The Company is aware that many of its stockholders are interested in matters of corporate governance. JCPenney shares this interest and is, and for many years has been, committed to assuring that the Company is managed in a way that is fair to all its stockholders and that allows its stockholders to maximize the value of their investment by participating in the present and future growth of JCPenney. JCPenney believes its corporate governance standards for the most part meet or exceed those being proposed by the Securities and Exchange Commission and the New York Stock Exchange. The Corporate Governance Committee of the Board of Directors reviews developments in the governance area as they affect relations between the Company and its stockholders and makes recommendations to the full Board regarding such issues.

INDEPENDENT BOARD OF DIRECTORS

In keeping with its long-standing practice, the Company's Board continues to be an independent board under any reasonable definition. Nominees for directors are selected by a committee composed entirely of directors who are not Company employees. The wide diversity of expertise, experience and achievements that the directors possess in business, investments, large organizations and public affairs allows the Board to most effectively represent the interests of all the Company's stockholders.

INDEPENDENT COMMITTEES

The Audit Committee, Corporate Governance Committee, Finance Committee and Human Resources and Compensation Committee, all standing committees of the Board of Directors, are composed entirely of directors who are not employees of the Company. These committees, as well as the entire Board, consult with, and are advised by, outside consultants and experts in connection with their deliberations as needed.

EXECUTIVE COMPENSATION

A significant portion of the cash compensation received by the Company's executive officers consists of performance incentive compensation payments derived from compensation plan "values." The amounts of these plan values are directly related to the sales and earnings of the Company and, consequently, vary from year to year based upon Company performance. The total compensation package for the Company's executive officers is set by the Human Resources and Compensation Committee, which is composed entirely of directors who are not employees of the Company and which receives the advice of independent outside consultants. Please refer to the Company's 2003 Proxy Statement for a report from the Company's Human Resources and Compensation Committee describing how compensation determinations are made.

CONFIDENTIAL VOTING

The Company has a long-standing confidential voting policy. Under this policy, all proxy (voting instruction) cards, ballots and vote tabulations, including telephone and internet voting records, that identify the particular vote of a stockholder are kept secret from the Company, its directors, officers and employees. Proxies are returned directly to the tabulator, who receives and tabulates the proxies. The final tabulation is inspected by inspectors of election who are independent of the Company, its directors, officers and employees. The identity and vote of a stockholder is not disclosed to the Company, its directors, officers or employees, or any third party except (1) to allow the independent election inspectors to certify the results of the vote; (2) as necessary to meet applicable legal requirements and to assert or defend claims for or against the Company; (3) in the event of a proxy solicitation based on an opposition proxy statement filed, or required to be filed, with the Securities and Exchange Commission; or (4) in the event a stockholder has made a written comment on such material.

CORPORATE CITIZENSHIP

COMMUNITY RELATIONS

The Company remains committed to investing in community programs that are important to its customers and its employees. JCPenney's commitment focuses on three major endeavors. JCP is a contributor to JCPenney Afterschool Fund, a charitable organization committed to providing children with high-quality after-school programs. JCP supports community health and welfare issues primarily through support of local United Ways nationwide. JCP annually recognizes its associates' personal volunteer endeavors through the James Cash Penney Awards for Community Service. A more complete review of JCPenney's community relations efforts is available online at www.jcpenney.net/company/commrel.

Eckerd focuses on issues that customers and associates have identified as most important to them: education, health care and the needs of women and children. Eckerd contributes to organizations such as Children's Miracle Network hospitals, United Way agencies, Juvenile Diabetes Research Foundation projects, camps for at-risk youths and scholarships for pharmacy students.

DIVERSITY

JCPenney has been a corporate member of the National Minority Supplier Development Council (NMSDC) since 1972 and continues to invest in the NMSDC's Business Consortium Fund, which makes loans to minority-owned businesses. The Company is a founding member of the Women's Business Enterprise National Council. In 2002, the Company's purchases from minority-owned and women-owned businesses totaled $410 million and $263 million, respectively.

ENVIRONMENTAL AFFAIRS

The Company's commitment to doing business in a responsible manner includes a determination to make environmental, health and safety considerations an important factor in corporate decision-making and policy. Copies of "Matters of Principle: JCPenney and Environmental Responsibility" and "JCPenney Community Partners" may be obtained as indicated on the inside back cover of this Annual Report.

EQUAL EMPLOYMENT OPPORTUNITY

<Table>
<Caption>

	TOTAL EMPLOYED		% FEMALE		% MINORITY	
	2002	1998	2002	1998	2002	1998
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Officials, managers and professionals	27,886	28,520	48.3%	47.8%	20.2%	17.7%
Management trainees	160	334	55.6%	66.2%	32.5%	30.8%
Sales workers	109,967	140,718	81.9%	83.5%	28.4%	26.5%
Office and clerical workers	32,484	40,608	86.1%	87.0%	25.5%	23.4%
Technicians, craft workers, operatives, laborers and service workers	49,266	48,679	73.3%	68.1%	32.7%	31.2%
Total	219,763	258,859	76.3%	77.2%	27.9%	25.9%

</Table>

EQUAL EMPLOYMENT OPPORTUNITY

JCP adheres to a policy of equal employment opportunity. The above employment information summary represents employees of JCP and its subsidiaries, excluding persons employed in Puerto Rico and in foreign countries. The information delineates female and minority representation in major job categories.

SUPPLIER LEGAL COMPLIANCE

JCP has a comprehensive and effective program for promoting compliance with labor and other laws in the factories used by its suppliers in the United States and abroad. This program is described in "The JCPenney Supplier Legal Compliance Program," which may be obtained as indicated on the inside back cover of this Annual Report.

ANNUAL MEETING

The Company's Annual Meeting of Stockholders will be held at 10:00 a.m. CDT, Friday, May 16, 2003, at the JCPenney Home Office located at 6501 Legacy Drive, Plano, Texas, 75024. You are cordially invited to attend. The Annual Report and Proxy Statement, including a request for proxies, were mailed to stockholders on or about April 11, 2003.

EXHIBIT 18

INDEPENDENT AUDITORS' PREFERABILITY LETTER

April 10, 2003

J. C. Penney Company, Inc.
6501 Legacy Drive
Plano, TX 75024

Ladies and Gentlemen:

We have audited the consolidated balance sheet of J. C. Penney Company, Inc. and subsidiaries (the "Company") as of January 25, 2003 and January 26, 2002, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the years in the three-year period then ended, and have reported thereon under date of February 20, 2003, except as to Note 21 which is as of February 28, 2003. The aforementioned consolidated financial statements and our audit report thereon are incorporated by reference in the Company's annual report on Form 10-K for the year ended January 25, 2003. As stated in Note 1 of the notes to those consolidated financial statements, the Company changed its method of determining inflation/deflation rates used in the valuation of LIFO inventories in 2002, and states that the newly adopted accounting principle is preferable in the circumstances because vendor cost results in more accurate measurement of inflation/deflation rates used to adjust ending inventory cost under the LIFO method of inventory valuation. In accordance with your request, we have reviewed and discussed with Company officials the circumstances and business judgment and planning upon which the decision to make this change in the method of accounting was based.

With regard to the aforementioned accounting change, authoritative criteria have not been established for evaluating the preferability of one acceptable method of accounting over another acceptable method. However, for purposes of the Company's compliance with the requirements of the Securities and Exchange Commission, we are furnishing this letter.

Based on our review and discussion, with reliance on management's business judgment and planning, we concur that the newly adopted method of accounting is preferable in the Company's circumstances.

Very truly yours,

/s/ KPMG LLP

EXHIBIT 21

SUBSIDIARIES OF THE REGISTRANT

Set forth below is a list of certain direct and indirect subsidiaries of the Company as of April 1, 2003. All of the voting securities of each named subsidiary are owned by the Company or by another subsidiary of the Company.

SUBSIDIARIES

Eckerd Corporation (Delaware)
J. C. Penney Corporation, Inc. (Delaware)

Separate financial statements are filed for J. C. Penney Funding Corporation, which is a consolidated subsidiary, in a separate Annual Report on Form 10-K.

The names of other subsidiaries have been omitted because these unnamed subsidiaries, considered in the aggregate as a single subsidiary, do not constitute a significant subsidiary.

EXHIBIT 23

INDEPENDENT AUDITORS' CONSENT

The Board of Directors of
J. C. Penney Company, Inc.:

We consent to incorporation by reference in the Registration Statements on Form S-8 (Nos. 33-28390, 33-66070, 33-66072, 333-33343, 333-27329, 333-45536, 333-62066, 333-73140) and Form S-3 (Nos. 333-57019, 333-74122 and 333-103147-01) of J. C. Penney Company, Inc. of our report dated February 20, 2003, except as to Note 21 which is as of February 28, 2003, relating to the consolidated balance sheets of J. C. Penney Company, Inc. and Subsidiaries as of January 25, 2003, and January 26, 2002, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years in the three-year period ended January 25, 2003, which report is incorporated by reference in the Annual Report on Form 10-K of J. C. Penney Company, Inc. for the year ended January 25, 2003. Our report refers to the Company's change in its method of determining inflation/deflation rates used in the valuation of LIFO inventories in fiscal year 2002, and the adoption of the provisions of the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," in fiscal year 2002.

/S/ KPMG LLP

Dallas, Texas
April 10, 2003

EXHIBIT 24

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS THAT each of the undersigned directors and officers of J. C. PENNEY COMPANY, INC., a Delaware corporation ("Company"), which will file with the Securities and Exchange Commission, Washington, D.C. ("Commission"), under the provisions of the Securities Exchange Act of 1934, as amended, its Annual Report on Form 10-K for the 52 weeks ended January 25, 2003, hereby constitutes and appoints W. J. Alcorn, R. B. Cavanaugh, and C. R. Lotter, and each of them, his or her true and lawful attorneys-in-fact and agents, with full power to each of them to act without the others, for him or her and in his or her name, place, and stead, in any and all capacities, to sign said Annual Report, which is about to be filed, and any and all subsequent amendments to said Annual Report ("Annual Report"), and to file said Annual Report so signed, and any and all subsequent amendments thereto so signed, with all exhibits thereto, and any and all documents in connection therewith, and to appear before the Commission in connection with any matter relating to said Annual Report, hereby granting to the attorneys-in-fact and agents, and each of them, full power and authority to do and perform any and all acts and things requisite and necessary to be done in and about the premises as fully and to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that such attorneys-in-fact and agents, or any of them, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned have executed this Power of Attorney effective as of the 21st day of March, 2003.

<Table>

<S>	<C>
/s/ A. I. Questrom	/s/ R. B. Cavanaugh
A. I. Questrom Chairman of the Board and Chief Executive Officer (principal executive officer); Director	R. B. Cavanaugh Executive Vice President and Chief Financial Officer (principal financial officer)
/s/ W. J. Alcorn	/s/ M. A. Burns
W. J. Alcorn Senior Vice President and Controller (principal accounting officer)	M. A. Burns Director
/s/ T. J. Engibous	/s/ K. B. Foster
T. J. Engibous Director	K. B. Foster Director

</Table>

<Table>

<S>	<C>
/s/ V. E. Jordan, Jr.	/s/ J. C. Pfeiffer
V. E. Jordan, Jr. Director	J. C. Pfeiffer Director
/s/ A. W. Richards	/s/ L. H. Roberts
A. W. Richards Director	L. H. Roberts Director
/s/ C. S. Sanford, Jr.	/s/ R. G. Turner

- --------------------------------	------------------------------
C. S. Sanford, Jr.	R. G. Turner
Director	Director

</Table>

EXHIBIT 99(c)

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of J. C. Penney Company, Inc. (the "Company") on Form 10-K for the period ending January 25, 2003 (the "Report"), I, Allen I. Questrom, Chairman and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

DATED this 10 day of April 2003.

/s/ ALLEN I. QUESTROM

Allen I. Questrom
Chairman and
Chief Executive Officer

EXHIBIT 99(d)

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of J. C. Penney Company, Inc. (the "Company") on Form 10-K for the period ending January 25, 2003 (the "Report"), I, Robert B. Cavanaugh, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(3) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(4) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

DATED this 10 day of April 2003.

/s/ ROBERT B. CAVANAUGH

Robert B. Cavanaugh
Executive Vice President and
Chief Financial Officer