

**SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-Q**

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal quarter ended October 30, 2004.

**FEDERATED DEPARTMENT STORES, INC.**

7 West Seventh Street  
Cincinnati, Ohio 45202  
(513) 579-7000  
and  
151 West 34th Street  
New York, New York 10001  
(212) 494-1602

Delaware  
(State of Incorporation)

1-13536  
(Commission File No.)

13-3324058  
(I.R.S. Employer  
Identification Number)

The Registrant has filed all reports required to be filed by Section 12, 13 or 15 (d) of the Act during the preceding 12 months and has been subject to such filing requirements for the past 90 days.

Indicate by checkmark whether Registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2).

Yes      ☒      No

169,205,348 shares of the Registrant's Common Stock, \$.01 par value, were outstanding as of November 27, 2004.

**PART I -- FINANCIAL INFORMATION**

**FEDERATED DEPARTMENT STORES, INC.**

**Consolidated Statements of Income**  
**(Unaudited)**

**(millions, except per share figures)**

13 Weeks Ended

39 Weeks Ended

|  | October 30,<br><u>2004</u> | November 1,<br><u>2003</u> | October 30,<br><u>2004</u> | November 1,<br><u>2003</u> |
|--|----------------------------|----------------------------|----------------------------|----------------------------|
| Net Sales                                    | \$3,491                    | \$3,486                    | \$10,556                   | \$10,211                   |
| Cost of sales                                | <u>2,100</u>               | <u>2,091</u>               | <u>6,296</u>               | <u>6,118</u>               |
| Gross margin                                 | 1,391                      | 1,395                      | 4,260                      | 4,093                      |
| Selling, general and administrative expenses | <u>1,216</u>               | <u>1,222</u>               | <u>3,623</u>               | <u>3,510</u>               |
| Operating income                             | 175                        | 173                        | 637                        | 583                        |
| Interest expense                             | (57)                       | (63)                       | (242)                      | (203)                      |
| Interest income                              | <u>2</u>                   | <u>2</u>                   | <u>8</u>                   | <u>7</u>                   |
| Income before income taxes                   | 120                        | 112                        | 403                        | 387                        |
| Federal, state and local income tax expense  | <u>(46)</u>                | <u>(45)</u>                | <u>(154)</u>               | <u>(154)</u>               |
| Net income                                   | <u>\$ 74</u>               | <u>\$ 67</u>               | <u>\$ 249</u>              | <u>\$ 233</u>              |
| Basic earnings per share                     | <u>\$ .43</u>              | <u>\$ .37</u>              | <u>\$ 1.41</u>             | <u>\$ 1.26</u>             |
| Diluted earnings per share                   | <u>\$ .42</u>              | <u>\$ .36</u>              | <u>\$ 1.38</u>             | <u>\$ 1.25</u>             |

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

## FEDERATED DEPARTMENT STORES, INC.

### Consolidated Balance Sheets (Unaudited)

(millions)

|                               | October 30,<br><u>2004</u> | January 31,<br><u>2004</u> | November 1,<br><u>2003</u> |
|-------------------------------|----------------------------|----------------------------|----------------------------|
| ASSETS:                       |                            |                            |                            |
| Current Assets:               |                            |                            |                            |
| Cash                          | \$ 212                     | \$ 925                     | \$ 227                     |
| Accounts receivable           | 3,147                      | 3,213                      | 2,906                      |
| Merchandise inventories       | 4,259                      | 3,215                      | 4,403                      |
| Supplies and prepaid expenses | 117                        | 99                         | 113                        |
| Deferred income tax assets    | =                          | =                          | <u>14</u>                  |
| Total Current Assets          | 7,735                      | 7,452                      | 7,663                      |
| Property and Equipment - net  | 5,974                      | 6,174                      | 6,170                      |
| Goodwill                      | 262                        | 262                        | 262                        |

|  |                 |                 |                 |
|--|-----------------|-----------------|-----------------|
| Other Intangible Assets - net              | 378             | 378             | 378             |
| Other Assets                               | <u>275</u>      | <u>284</u>      | <u>277</u>      |
| Total Assets                               | <u>\$14,624</u> | <u>\$14,550</u> | <u>\$14,750</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY:      |                 |                 |                 |
| Current Liabilities:                       |                 |                 |                 |
| Short-term debt                            | \$ 845          | \$ 908          | \$ 839          |
| Accounts payable and accrued liabilities   | 3,369           | 2,613           | 3,414           |
| Income taxes                               | <u>162</u>      | <u>362</u>      | <u>115</u>      |
| Total Current Liabilities                  | 4,376           | 3,883           | 4,368           |
| Long-Term Debt                             | 3,038           | 3,151           | 3,152           |
| Deferred Income Taxes                      | 1,057           | 998             | 1,038           |
| Other Liabilities                          | 605             | 578             | 642             |
| Shareholders' Equity                       | <u>5,548</u>    | <u>5,940</u>    | <u>5,550</u>    |
| Total Liabilities and Shareholders' Equity | <u>\$14,624</u> | <u>\$14,550</u> | <u>\$14,750</u> |

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

## FEDERATED DEPARTMENT STORES, INC.

### Consolidated Statements of Cash Flows (Unaudited)

(millions)

|   | <u>39 Weeks Ended</u><br><u>October 30, 2004</u> | <u>39 Weeks Ended</u><br><u>November 1, 2003</u> |
|---|--|--|
| Cash flows from operating activities:   |  |  |
| Net income  | \$ 249   | \$ 233   |
| Adjustments to reconcile net income to net cash provided by operating activities: |  |  |
| Depreciation and amortization   | 531  | 526  |
| Amortization of financing costs   | 5  | 2  |
| Amortization of unearned restricted stock   | 2  | 3  |
| Changes in assets and liabilities:  |  |  |
| Decrease in accounts receivable   | 54   | 44   |
| Increase in merchandise inventories   | (1,044)  | (1,044)  |
| (Increase) decrease in supplies and prepaid expenses                              | (18)   | 11   |
| Increase in other assets not separately identified                                | -  | (1)  |
| Increase in accounts payable and accrued liabilities not separately identified    | 712  | 803  |
| Increase (decrease) in current income taxes                                       | (198)  | 44   |
| Increase in deferred income taxes   | 61   | 35   |
| Increase (decrease) in other liabilities not separately identified                | <u>27</u>  | <u>(26)</u>                                      |
| Net cash provided by operating activities   | <u>381</u>                                       | <u>630</u>                                       |

Cash flows from investing activities:

|                                       |              |              |
|---------------------------------------|--------------|--------------|
| Purchase of property and equipment    | (316)        | (313)        |
| Capitalized software                  | (59)         | (46)         |
| Collection of notes receivable        | 30           | -            |
| Disposition of property and equipment | <u>21</u>    | <u>3</u>     |
| Net cash used by investing activities | <u>(324)</u> | <u>(356)</u> |
| Cash flows from financing activities: |              |              |
| Debt issued                           | 189          | 96           |
| Debt repaid                           | (364)        | (456)        |
| Dividends paid                        | (70)         | (46)         |
| Increase in outstanding checks        | 26           | 24           |
| Acquisition of treasury stock         | (689)        | (485)        |
| Issuance of common stock              | <u>138</u>   | <u>104</u>   |
| Net cash used by financing activities | <u>(770)</u> | <u>(763)</u> |

(Continued)

# **FEDERATED DEPARTMENT STORES, INC.**

## **Consolidated Statements of Cash Flows (continued)** **(Unaudited)**

**(millions)**

|   | 39 Weeks Ended<br><u>October 30, 2004</u> | 39 Weeks Ended<br><u>November 1, 2003</u> |
|---|---|---|
| Net decrease in cash                        | (713)                                     | (489)                                     |
| Cash at beginning of period                 | <u>925</u>                                | <u>716</u>                                |
| Cash at end of period                       | <u>\$ 212</u>                             | <u>\$ 227</u>                             |
| Supplemental cash flow information:         |   |   |
| Interest paid                               | \$ 267                                    | \$ 224                                    |
| Interest received                           | 9   | 7   |
| Income taxes paid (net of refunds received) | 291                                       | 55  |

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

# **FEDERATED DEPARTMENT STORES, INC.**

## **Notes to Consolidated Financial Statements** **(Unaudited)**

### **1. Summary of Significant Accounting Policies**

A description of the Company's significant accounting policies is included in the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2004 (the "2003 10-K"). The accompanying Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and notes thereto in the 2003 10-K.

Because of the seasonal nature of the retail business, the results of operations for the 13 and 39 weeks ended October 30, 2004 and November 1, 2003 (which do not include the Christmas season) are not necessarily

indicative of such results for the fiscal year.

The Consolidated Financial Statements for the 13 and 39 weeks ended October 30, 2004 and November 1, 2003, in the opinion of management, include all adjustments (consisting only of normal recurring adjustments) considered necessary to present fairly, in all material respects, the consolidated financial position and results of operations of the Company and its subsidiaries.

In December 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities - an interpretation of ARB No. 51 (revised December 2003)." This interpretation addresses the consolidation by business enterprises of variable interest entities that contain certain characteristics and was fully effective May 1, 2004. The adoption of this interpretation did not impact the Company's consolidated financial position, results of operations or cash flows.

In May 2004, the FASB issued Staff Position 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003" ("FSP 106-2"). On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act") was signed into law. The Act introduced both a Medicare prescription drug benefit and a federal subsidy to sponsors of retiree healthcare plans. The accumulated postretirement benefit obligation at October 30, 2004 and the net postretirement benefit expense for the 13 and 39 weeks ended October 30, 2004 reflect the effects of the Act on the Company's postretirement benefit plans. The adoption of this position did not have a material impact on the Company's consolidated financial position, results of operations or cash flows (see Note 5).

The Company accounts for its stock-based employee compensation plan in accordance with APB Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations. No stock-based employee compensation cost related to stock options is reflected in net income, as all options granted under the plan have an exercise price at least equal to the market value of the underlying common stock on the date of grant.

The following table illustrates the effect on net income and earnings per share as if the Company had applied the fair value provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," for stock options granted. The Company estimates the fair value of each employee stock option grant on the date of grant using the Black-Scholes option-pricing model.

|   | <u>13 Weeks Ended</u>             |                         | <u>39 Weeks Ended</u>   |                         |
|---|-----------------------------------|-------------------------|-------------------------|-------------------------|
|   | October 30, <u>2004</u>           | November 1, <u>2003</u> | October 30, <u>2004</u> | November 1, <u>2003</u> |
|   | (millions, except per share data) |                         |                         |                         |
| Net income, as reported   | \$ 74                             | \$ 67                   | \$ 249                  | \$ 233                  |
| Deduct total stock-based employee compensation cost determined in accordance with SFAS No.123, net of related tax benefit | <u>(8)</u>                        | <u>(9)</u>              | <u>(26)</u>             | <u>(29)</u>             |
| Pro forma net income  | <u>\$ 66</u>                      | <u>\$ 58</u>            | <u>\$ 223</u>           | <u>\$ 204</u>           |
| Earnings per share:   |                                   |                         |                         |                         |
| Basic - as reported   | <u>\$ .43</u>                     | <u>\$ .37</u>           | <u>\$ 1.41</u>          | <u>\$1.26</u>           |
| Basic - pro forma   | <u>\$ .38</u>                     | <u>\$ .32</u>           | <u>\$ 1.26</u>          | <u>\$1.10</u>           |
| Diluted - as reported   | <u>\$ .42</u>                     | <u>\$ .36</u>           | <u>\$ 1.38</u>          | <u>\$1.25</u>           |
| Diluted - pro forma   | <u>\$ .38</u>                     | <u>\$ .31</u>           | <u>\$ 1.23</u>          | <u>\$1.09</u>           |

## 2. Financing

In July 2004, the Company completed an offer to repurchase any and all of its \$350 million aggregate principal amount of 8.5% senior notes due 2010. Notes totaling \$274 million were purchased in the offer and the Company recorded \$59 million of costs associated with the offer as additional interest expense.

Certain holders of the Company's \$250 million aggregate principal amount of 6.79% senior debentures due 2027 elected to have such debentures repaid on July 15, 2004 at 100% of the principal amount thereof, together with accrued interest to the date of payment. As a result, \$85 million of the Company's 6.79% senior debentures due 2027 was repaid and the remaining \$165 million is classified as long-term debt at October 30, 2004.

### 3. Restructuring Accruals

During the 39 weeks ended October 30, 2004, the Company recorded certain costs and expenses in selling, general and administrative ("SG&A") expenses related to store closings and consolidations, including accruals of \$7 million for severance and \$2 million of lease termination costs.

During the fourth quarter of 2002, the Company recorded certain costs and expenses associated with the Rich's-Macy's consolidation, including \$6 million of accrued severance costs, in SG&A.

The Company recorded restructuring charges in 2001 and 2000, including accrued long-term lease obligations related to the disposition of properties associated with the closing of its Stern's department store division.

The following table shows the beginning and ending balances of, and the activity associated with, the restructuring accruals for the 39 weeks ended October 30, 2004.

|                             | January 31,<br><u>2004</u> | <u>Expense</u> | <u>Payments</u> | October<br>30,<br><u>2004</u> |
|-----------------------------|----------------------------|----------------|-----------------|-------------------------------|
|                             | (millions)                 |                |                 |                               |
| Long-term lease obligations | \$ 11                      | \$ -           | \$ (2)          | \$ 9                          |
| Lease termination costs     | \$ -                       | \$ 2           | \$ -            | \$ 2                          |
| Severance costs             | \$ -                       | \$ 7           | \$ (3)          | \$ 4                          |

The Company still expects to pay out the \$9 million accrual related to long-term lease liabilities associated with the disposition of a Stern's property. The lease termination and severance costs that remain accrued at October 30, 2004 are expected to be paid prior to January 29, 2005.

The following table shows the beginning and ending balances of, and the activity associated with, the restructuring accruals for the 39 weeks ended November 1, 2003:

|                             | February 1,<br><u>2003</u> | <u>Expense</u> | <u>Payments</u> | November 1,<br><u>2003</u> |
|-----------------------------|----------------------------|----------------|-----------------|----------------------------|
|                             | (millions)                 |                |                 |                            |
| Long-term lease obligations | \$ 14                      | \$ -           | \$ (2)          | \$ 12                      |
| Severance costs             | \$ 6                       | \$ -           | \$ (6)          | \$ -                       |

### 4. Earnings Per Share

The following tables set forth the computation of basic and diluted earnings per share:

| 13 Weeks Ended                  |                                      |               |                  |               |
|---------------------------------|--------------------------------------|---------------|------------------|---------------|
|                                 | October 30, 2004                     |               | November 1, 2003 |               |
|                                 | <u>Income</u>                        | <u>Shares</u> | <u>Income</u>    | <u>Shares</u> |
|                                 | (millions, except per share figures) |               |                  |               |
| Net income and average          |                                      |               |                  |               |
| number                          | \$ 74                                | 171.4         | \$ 67            | 182.0         |
| of shares outstanding           |                                      |               |                  |               |
| Shares to be issued under       |                                      |               |                  |               |
| deferred compensation plans     | =                                    | <u>.6</u>     | =                | <u>.6</u>     |
|                                 | \$ 74                                | 172.0         | \$ 67            | 182.6         |
| Basic earnings per share        | <u>\$ .43</u>                        |               | <u>\$ .37</u>    |               |
| Effect of dilutive securities - |                                      |               |                  |               |
| stock options                   | =                                    | <u>2.4</u>    | =                | <u>3.1</u>    |
|                                 | \$ 74                                | 174.4         | \$ 67            | 185.7         |
| Diluted earnings per share      | <u>\$ .42</u>                        |               | <u>\$ .36</u>    |               |

| 39 Weeks Ended  |               |                  |               |               |
|---|---------------|------------------|---------------|---------------|
| October 30, 2004                                      |               | November 1, 2003 |               |               |
|   | <u>Income</u> | <u>Shares</u>    | <u>Income</u> | <u>Shares</u> |
| (millions, except per share figures)                  |               |                  |               |               |
| Net income and average number of shares outstanding   | \$ 249        | 176.6            | \$ 233        | 185.1         |
| Shares to be issued under deferred compensation plans | =             | .6               | =             | .7            |
|   | \$ 249        | 177.2            | \$ 233        | 185.8         |
| Basic earnings per share                              | <u>\$1.41</u> |                  | <u>\$1.26</u> |               |
| Effect of dilutive securities - stock options         | =             | 3.0              | =             | 1.7           |
|   | \$ 249        | 180.2            | \$ 233        | 187.5         |
| Diluted earnings per share                            | <u>\$1.38</u> |                  | <u>\$1.25</u> |               |

In addition to the stock options reflected in the foregoing tables, stock options to purchase 6.0 million shares of common stock at prices ranging from \$46.06 to \$79.44 per share were outstanding at October 30, 2004 and stock options to purchase 4.3 million shares of common stock at prices ranging from \$43.88 to \$79.44 per share were outstanding at November 1, 2003 but were not included in the computation of diluted earnings per share because the exercise price thereof exceeded the average market price and their inclusion would have been antidilutive.

## 5. Benefit Plans

The Company has a defined benefit plan ("Pension Plan") and a defined contribution plan which cover substantially all employees who work 1,000 hours or more in a year. The Company also has a defined benefit supplementary retirement plan which includes benefits, for certain employees, in excess of qualified plan limitations.

In addition, certain retired employees currently are provided with special health care and life insurance benefits ("Postretirement Obligations"). Eligibility requirements for such benefits vary by division and subsidiary, but generally state that benefits are available to eligible employees who were hired prior to a certain date and retire after a certain age with specified years of service. Certain employees are subject to having such benefits modified or terminated.

The actuarially determined components of the net periodic benefit cost (benefit) are as follows:

|                                      | <u>13 Weeks Ended</u> |                  | <u>39 Weeks Ended</u> |                  |
|--------------------------------------|-----------------------|------------------|-----------------------|------------------|
|                                      | October 30, 2004      | November 1, 2003 | October 30, 2004      | November 1, 2003 |
| <u>Pension Plan</u>                  |                       |                  |                       |                  |
| Service cost                         | \$ 11                 | \$ 11            | \$ 34                 | \$ 31            |
| Interest cost                        | 25                    | 25               | 74                    | 74               |
| Expected return on assets            | (36)                  | (37)             | (107)                 | (110)            |
| Recognition of net actuarial loss    | <u>5</u>              | =                | <u>15</u>             | =                |
|                                      | <u>\$ 5</u>           | <u>\$ (1)</u>    | <u>\$ 16</u>          | <u>\$ (5)</u>    |
| <u>Supplementary Retirement Plan</u> |                       |                  |                       |                  |
| Service cost                         | \$ 2                  | \$ 1             | \$ 6                  | 5                |
| Interest cost                        | 5                     | 3                | 13                    | 11               |

|                                    |              |             |              |              |
|------------------------------------|--------------|-------------|--------------|--------------|
| Amortization of prior service cost | 1            | 1           | 2            | 1            |
| Recognition of net actuarial loss  | <u>4</u>     | <u>3</u>    | <u>11</u>    | <u>8</u>     |
|                                    | <u>\$ 12</u> | <u>\$ 8</u> | <u>\$ 32</u> | <u>\$ 25</u> |

#### Postretirement Obligations

|                                    |             |             |             |             |
|------------------------------------|-------------|-------------|-------------|-------------|
| Service cost                       | \$ 1        | \$ -        | \$ 1        | \$ -        |
| Interest cost                      | 3           | 5           | 12          | 14          |
| Amortization of prior service cost | (1)         | (1)         | (4)         | (5)         |
| Recognition of net actuarial gain  | <u>-</u>    | <u>-</u>    | <u>(2)</u>  | <u>(1)</u>  |
|                                    | <u>\$ 3</u> | <u>\$ 4</u> | <u>\$ 7</u> | <u>\$ 8</u> |

During the 39 weeks ended October 30, 2004, the Company adopted FSP 106-2 to reflect the impact of the Act. The effect of the adoption of this position was to reduce the accumulated postretirement benefit obligation by \$14 million as of December 31, 2003 and to reduce postretirement benefit cost, primarily through the amortization of the related net actuarial gain, by \$1 million and \$3 million for the 13 and 39 weeks ended October 30, 2004, respectively. The impact of the adoption of this position on service cost and interest cost was not material.

As of the date of this report, the Company is considering making a voluntary funding contribution to the Pension Plan of \$50-\$100 million by December 31, 2004.

### **FEDERATED DEPARTMENT STORES, INC .**

#### **Management's Discussion and Analysis** **of Financial Condition and Results of Operations**

#### **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

For purposes of the following discussion, all references to "third quarter of 2004" and "third quarter of 2003" are to the Company's 13-week fiscal periods ended October 30, 2004 and November 1, 2003, respectively, and all references to "2004" and "2003" are to the Company's 39-week fiscal periods ended October 30, 2004 and November 1, 2003, respectively.

The Company is a retail organization operating department stores that sell a wide range of merchandise, including men's, women's and children's apparel and accessories, cosmetics, home furnishings and other consumer goods in 34 states, Puerto Rico and Guam. The highest concentrations of stores are on the west coast, in the southeast and in the northeast. The Company's operations are significantly impacted by competitive pressures from department and specialty stores and all other retail channels, and general consumer-spending levels, including the impact of employment levels.

In 2003, the Company commenced the implementation of a strategy to more fully utilize its Macy's brand. The Company propelled Macy's presence nationwide through successful co-branding with the Company's regional department store nameplates. The co-branding is allowing the Company to magnify the impact of marketing on a nationwide basis, as well as to leverage major events such as the Macy's Thanksgiving Day Parade. Continuing with the Company's strategy to more fully utilize its Macy's brand, the Company plans to convert all of its co-branded regional department stores to the Macy's nameplate in early 2005. Beginning in 2005, the Company will operate coast to coast exclusively under two retail brands - Macy's and Bloomingdale's.

The Company entered 2004 with a continued strategic focus on four key priorities for improving the business over the longer term: differentiating and editing merchandise assortments; simplifying pricing; improving the overall shopping experience; and communicating better with customers through more brand focused and effective marketing. The Company believes that its recent results indicate that these strategies are working and that the customer is responding in a favorable manner.

In early 2004, the Company announced a further step in reinventing its department stores - - the creation of a centralized organization to be responsible for the overall strategy, merchandising and marketing of home-related categories of business in all of its Macy's-branded stores. The centralized operation is expected to accelerate sales in these categories largely by improving and further differentiating the Company's home-related merchandise assortments.

The Company has also taken additional steps to put its strong cash flow to work towards increasing shareholder return, including the increase in the annual cash dividend to \$.54 per share in 2004, the increased authorization and current intention to repurchase between \$700-\$900 million of its common stock in 2004 and the repurchase of \$274 million of its 8.5% senior notes due 2010.

As part of the national co-branding and store consolidations, six Macy's stores previously operating in Florida were consolidated into the Burdines-Macy's organization in 2004. As part of the Rich's-Macy's consolidation in Georgia, certain Macy's stores were closed in 2003; however, one location was renovated and partially reopened as a Rich's-Macy's furniture gallery and two locations were renovated and reopened as Bloomingdale's stores.

## **Results of Operations**

### **Comparison of the 13 Weeks Ended October 30, 2004 and November 1, 2003**

Net income for the third quarter of 2004 totaled \$74 million compared to \$67 million for the third quarter of 2003. Net income for the third quarter of 2004 benefited from lower interest expense resulting from the repurchase during the second quarter of 2004 of \$274 million of the Company's 8.5% Senior Notes due 2010, and improved operating income, despite higher store closing, centralization and consolidation costs during the third quarter of 2004.

Net sales for the third quarter of 2004, which were negatively impacted by hurricanes in Florida, totaled \$3,491 million, up 0.2% compared to net sales of \$3,486 million for the third quarter of 2003. On a comparable store basis (sales from stores in operation throughout 2003 and 2004), net sales for the third quarter of 2004 increased 0.4% compared to the third quarter of 2003. In the third quarter of 2004, sales were strongest at Bloomingdale's, Macy's West and Burdines-Macy's. By family of business, sales in the third quarter of 2004 were strongest in handbags, jewelry and cosmetics as well as in children's apparel. Additionally, sales of both men's and women's apparel strengthened in October 2004.

Cost of sales was 60.2% of net sales for the third quarter of 2004, compared to 60.0% for the third quarter of 2003. Included in cost of sales for the third quarter of 2004 were \$14 million of markdowns associated with the Macy's home store centralization. These markdowns are related to merchandise that was being sold at Macy's-branded stores that will not continue to be sold following the home store centralization. Merchandise inventories were down 3.3% at the end of the third quarter of 2004 as compared to the third quarter of 2003. The valuation of merchandise inventories on the last-in, first-out basis did not impact cost of sales in either period.

Selling, general and administrative ("SG&A") expenses were 34.8% of net sales for the third quarter of 2004, compared to 35.0% for the third quarter of 2003. Included in SG&A expenses for the third quarter of 2004 were approximately \$22 million of severance, relocation, real estate write-downs and other costs incurred in connection with store closings, the Burdines-Macy's consolidation and the home store centralization. Included in SG&A expenses for the third quarter of 2003 were approximately \$29 million of costs incurred in connection with store closings and the Rich's-Macy's consolidation.

Net interest expense was \$55 million for the third quarter of 2004, compared to \$61 million for the third quarter of 2003 due principally to the effect of the repurchase during the second quarter of 2004 of \$274 million of the Company's 8.5% Senior Notes due 2010.

The Company's effective income tax rate of 38.0% for the third quarter of 2004 and 39.8% for the third quarter of 2003 differ from the federal income tax statutory rate of 35.0%, and on a comparative basis, principally because of the effect of state and local income taxes.

### **Comparison of the 39 Weeks Ended October 30, 2004 and November 1, 2003**

Net income for 2004 totaled \$249 million, compared to net income of \$233 million for 2003. Net income for 2004 reflects strong sales and gross margin performance in 2004, partially offset by the higher interest expense associated with the repurchase of \$274 million of the Company's 8.5% senior notes due 2010 and higher store closing, centralization and consolidation costs during 2004.

Net sales for 2004 totaled \$10,556 million, compared to net sales of \$10,211 million for 2003, an increase of 3.4%. On a comparable store basis (sales from stores in operation throughout 2003 and 2004), net sales also increased 3.4% compared to 2003. In 2004, sales were strongest at Bloomingdale's, Macy's West and Burdines-Macy's. By family of business, sales in 2004 were strongest in women's and men's sportswear, handbags, jewelry and luggage.

Cost of sales was 59.6% of net sales for 2004, compared to 59.9% for 2003. Included in cost of sales for 2004 were \$31 million of markdowns associated with the Macy's home store centralization and the Burdines-Macy's consolidation in Florida. These markdowns are primarily related to merchandise that was being sold at Macy's-branded stores that will not continue to be sold following the Burdines-Macy's consolidation and home store centralization. The valuation of department store merchandise inventories on the last-in, first-out basis did not impact cost of sales in either period.

SG&A expenses were 34.4% of net sales for 2004 and 2003. SG&A expenses in 2004 reflect higher pension costs, higher selling-related expenses and higher store closing, centralization and consolidation costs, partially offset by improved bad debt expense. Included in SG&A expenses for 2004 were approximately \$55 million of severance, relocation, real estate write-downs, lease-termination and other costs incurred in connection with store closings, the Burdines-Macy's consolidation and the home store centralization. Included in SG&A expenses for 2003 were approximately \$47 million of costs incurred in connection with store closings and the Rich's-Macy's consolidation.

Net interest expense was \$234 million for 2004, compared to \$196 million for 2003. Net interest expense for 2004 includes \$59 million of costs associated with the repurchase of \$274 million of the Company's 8.5% senior notes due 2010, partially offset by the impact of lower levels of borrowings.

The Company's effective income tax rate of 38.1% for 2004 and 39.7% for 2003 differ from the federal income tax statutory rate of 35.0%, and on a comparative basis, principally because of the effect of state and local income taxes.

### **Liquidity and Capital Resources**

The Company's principal sources of liquidity are cash from operations, cash on hand and available credit facilities.

Net cash provided by operating activities in 2004 was \$381 million, compared to the \$630 million provided in 2003. Cash provided by operating activities in 2003 benefited from lower income tax payments resulting from the use of Fingerhut net operating losses.

Net cash used by investing activities was \$324 million for 2004, compared to \$356 million for 2003. Investing activities for 2004 included purchases of property and equipment totaling \$316 million, capitalized software of \$59 million and the \$30 million collection on notes receivable. Investing activities for 2003 included purchases of property and equipment totaling \$313 million and capitalized software of \$46 million. The Company opened four new department stores and one furniture gallery during 2004 and plans to open three additional furniture galleries during the remainder of 2004. The Company's budgeted capital expenditures continue to be approximately \$600 million for fiscal year 2004.

Net cash used by the Company for all financing activities was \$770 million for 2004, including \$364 million of debt repayments, the acquisition of 14.6 million shares of its common stock at an approximate cost of \$689 million, the issuance of \$138 million of its common stock, primarily related to the exercise of stock options, and \$70 million of cash dividends paid. Net cash used by the Company for all financing activities was \$763 million for 2003, including the repayment of \$450 million of the Company's 8.5% senior notes that were due in 2003 and the acquisition of 13.1 million shares of its common stock at an approximate cost of \$485 million.

The debt repaid in 2004 includes the repurchase of \$274 million of the Company's 8.5% senior notes due 2010 and \$85 million of the Company's 6.79% senior debentures due 2027. Certain holders of the Company's 6.79% senior debentures due 2027 elected to have such debentures repaid on July 15, 2004 at 100% of the principal amount thereof, together with accrued interest to the date of repayment. As of October 30, 2004, the remaining \$165 million of 6.79% senior debentures due 2027 is classified as long-term debt.

The Company's board of directors approved additional \$750 million authorizations to the Company's existing share repurchase program on February 27, 2004 and July 20, 2004. These new authorizations are additive to the existing repurchase program, which as of October 30, 2004 had approximately \$883 million of authorization remaining. The Company currently intends to repurchase between \$700-\$900 million of its common stock during fiscal year 2004. The Company may continue or, from time to time, suspend repurchases of shares under its stock repurchase program, depending on prevailing market conditions, alternate uses of capital and other factors.

On October 21, 2004, the Company's board of directors declared a quarterly dividend of 13.5 cents per share on its common stock. This dividend is payable January 3, 2005 to shareholders of record at the close of business on

December 15, 2004.

On May 25, 2004, the aggregate size of the commercial paper conduit programs used to finance the Company's non-proprietary credit card receivables was increased from \$700 million to \$750 million. On November 4, 2004 and on November 29, 2004, the aggregate size of these programs was increased again. The total borrowing capacity under these programs is currently \$850 million.

The Company was party to a 364-Day Credit Agreement, pursuant to which certain financial institutions had provided the Company with a \$200 million revolving loan facility which expired June 25, 2004. Based upon an assessment of the Company's liquidity needs, this agreement was not renewed. However, the Company's related \$1.2 billion Five-Year Credit Agreement, which expires June 2006, remains effective.

Management believes that, with respect to the Company's current operations, cash on hand and funds from operations, together with its credit facilities and other capital resources, will be sufficient to cover the Company's reasonably foreseeable working capital, capital expenditure and debt service requirements and capital transactions in both the near term and over the longer term. The Company's ability to generate funds from operations may be affected by numerous factors, including general economic conditions and levels of consumer confidence and demand; however, the Company expects to be able to manage its working capital levels and capital expenditure amounts so as to maintain its liquidity levels. Depending upon conditions in the capital markets and other factors, the Company will from time to time consider the issuance of debt or other securities, or other possible capital markets transactions, the proceeds of which could be used to refinance current indebtedness or for other corporate purposes.

Management believes the department store business and other retail businesses will continue to consolidate. The Company intends from time to time to consider additional acquisitions of, and investments in, department stores and other complementary assets and companies. Acquisition transactions, if any, are expected to be financed through a combination of cash on hand and funds from operations and the possible issuance from time to time of long-term debt or other securities.

As of the date of this report, the Company is exploring various alternatives with respect to its credit card related assets, including the possible purchase of the portion of the Macy's accounts currently owned by GE Capital Consumer Card Co. ("GE Bank"), the possible sale of all or a portion of the Company-owned accounts and related assets or the entry into modified arrangements with GE Bank or another third party with respect thereto.

### **Outlook**

The Company is assuming that general economic and other conditions and consumer confidence and demand will be such that comparable store sales will be flat to up 1.5 percent in the fourth quarter of the fiscal year, which ends January 29, 2005. The Company expects to achieve earnings per share on a diluted basis of \$3.73 to \$3.83 in fiscal 2004, including earnings per diluted share of \$2.45 to \$2.55 for the fourth quarter. For the fourth quarter, this estimate includes store closing and consolidation costs of \$22-\$24 million, of which a total of \$4 million is expected to be recorded in cost of sales as inventory valuation adjustments. In connection with these estimates, the Company is assuming that the gross margin rate will be relatively flat in the fourth quarter compared to 2003. SG&A expense dollars are expected to be up during the fourth quarter, due to the previously mentioned costs and higher pension expenses.

The accuracy of the foregoing assumptions and the resulting forecasts is subject to uncertainties and circumstances beyond the Company's control. Consequently, actual results could differ materially from the forecasted results. See "Other Information" in Item 5 of Part II of this report for a discussion of matters that could cause actual results to vary from the Company's expectations.

### **Item 4. Controls and Procedures**

The Company's Chief Executive Officer and Chief Financial Officer have carried out, as of October 30, 2004, an evaluation of the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)). Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission's rules and forms. There were no changes in the Company's internal control over financial reporting that occurred during the Company's most recently completed fiscal quarter that

materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## **PART II -- OTHER INFORMATION**

### **FEDERATED DEPARTMENT STORES, INC.**

#### **Item 1. Legal Proceedings.**

The Company and certain members of its senior management were named as defendants in five substantially identical purported class action complaints filed on behalf of persons who purchased shares of the Company's Common Stock between February 23, 2000 and July 20, 2000. Originally filed in August, September and October 2000, in the United States District Court for the Southern District of New York, the actions were consolidated into a single case (In Re Federated Department Stores, Inc. Securities Litigation, Case No. 00-CV-6362 (RCC)) and a consolidated amended complaint (the "Complaint") was filed. The Complaint alleged violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, and Rule 10b-5 thereunder, on the basis of claims that the Company, among other things, made false and misleading statements regarding its financial condition and results of operations and failed to disclose material information relating to the credit delinquency problem at the Company's former subsidiary, Fingerhut Companies, Inc. ("Fingerhut"). The plaintiffs sought unspecified amounts of compensatory damages and costs, including legal fees. The Company filed a Motion to Dismiss the Complaint on January 22, 2002, and on March 11, 2004, the court dismissed the Complaint without prejudice. On May 18, 2004, the plaintiffs filed a second amended complaint (the "Second Amended Complaint"), asserting the same claims as in the earlier versions of the Complaint. The Company filed a Motion to Dismiss the Second Amended Complaint on July 7, 2004, and is awaiting a response from the Court.

The Company and its subsidiary, Macy's West, Inc., were named as defendants in a civil action filed by the California Attorney General. The complaint was filed on June 23, 2004 in Alameda County Superior Court. The complaint alleges violations of California's Safe Drinking Water and Toxic Enforcement Act of 1986, California Health & Safety Code Sections 25249.5 et seq., also known as Proposition 65 ("Prop 65") on the basis that the Company offers for sale fashion jewelry containing levels of lead requiring a warning under Prop 65 and that such warning had not been provided. The plaintiffs seek injunctive relief, civil penalties, and attorneys' fees and costs. Based on the information presently available to the Company, management expects that the ultimate resolution of this action will not have a material impact on the Company's financial condition, results of operations or cash flows.

## **PART II -- OTHER INFORMATION**

### **FEDERATED DEPARTMENT STORES, INC.**

#### **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

The following table provides information regarding the Company's purchases of Common Stock during the third quarter of 2004:

|                                       | Total Number of<br>Shares<br><u>Purchased (1)</u><br>(thousands) | Average<br>Price per<br>Share (\$)<br><u>Share (\$)</u> | Number of Shares<br>Purchased Under<br><u>Program (2)</u><br>(thousands) | Open<br>Authorization<br><u>Remaining (2) (\$)</u><br>(millions) |
|---------------------------------------|--|---|--|--|
| August 1, 2004 -<br>August 28, 2004   | 2,312  | 44.84   | 2,307  | 1,115  |
| August 29, 2004 -<br>October 2, 2004  | 2,889  | 45.22   | 2,889  | 985  |
| October 3, 2004 -<br>October 30, 2004 | <u>2,184</u>   | <u>46.80</u>  | <u>2,184</u>   | 883  |
| Total                                 | 7,385  | 45.57   | 7,380  |  |

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(1) Includes shares accepted in lieu of cash to pay employee tax liabilities upon the lapse of restrictions on restricted stock and upon the distribution of Common Stock under the Company's deferred compensation plans.

(2) The Company's board of directors initially approved a \$500 million authorization to purchase Common Stock on January 26, 2000 and approved additional \$500 million authorizations on each of August 25, 2000, May 18, 2001 and April 16, 2003 and additional \$750 million authorizations on each of February 27, 2004 and July 20, 2004. All authorizations are cumulative and do not have an expiration date.

## **PART II -- OTHER INFORMATION**

### **FEDERATED DEPARTMENT STORES, INC.**

#### **Item 5. Other Information.**

This report and other reports, statements and information previously or subsequently filed by the Company with the Securities and Exchange Commission (the "SEC") contain or may contain forward-looking statements. Such statements are based upon the beliefs and assumptions of, and on information available to, the management of the Company at the time such statements are made. The following are or may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995:

(i) statements preceded by, followed by or that include the words "may," "will," "could,"

"should," "believe," "expect," "future," "potential," "anticipate," "intend," "plan," "think," "estimate" or "continue" or the negative or other variations thereof and (ii) statements regarding matters that are not historical facts. Such forward-looking statements are subject to various risks and uncertainties, including (a) risks and uncertainties relating to the possible invalidity of the underlying beliefs and assumptions, (b) possible changes or developments in social, economic, business, industry, market, legal and regulatory circumstances and conditions, (c) actions taken or omitted to be taken by third parties, including customers, suppliers, business partners, competitors and legislative, regulatory, judicial and other governmental authorities and officials, and (d) attacks or threats of attacks by terrorists or war. Such statements should not be relied upon as continuing to reflect the expectations of management or the current status of any matter referred to therein as of any date subsequent to the date on which such statements are made. Furthermore, future results of the operations of the Company could differ materially from historical results or current expectations because of a variety of factors that affect the Company, including transaction costs associated with the renovation, conversion and transitioning of retail stores in regional markets; the outcome and timing of sales and leasing in conjunction with the disposition of retail store properties; the retention, reintegration and transitioning of displaced employees; competitive pressures from department and specialty stores, general merchandise stores, manufacturers' outlets, off-price and discount stores, and all other retail channels; and general consumer-spending levels, including the impact of the availability and level of consumer debt, and the effects of the weather. In addition to any risks and uncertainties specifically identified in the text surrounding such forward-looking statements, the statements in the immediately preceding sentence and the statements under captions such as "Risk Factors" and "Special Considerations" in reports, statements and information filed by the Company with the SEC from time to time constitute cautionary statements identifying important factors that could cause actual amounts, results, events and circumstances to differ materially from those reflected in such forward-looking statements.

## **PART II -- OTHER INFORMATION**

### **FEDERATED DEPARTMENT STORES, INC.**

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

##### **A. Exhibits**

- 10.1 Commercial Paper Dealer Agreement between the Company, as Issuer and Banc of America Securities, LLC, as Dealer, dated as of September 30, 2004
- 10.2 First Amendment to Class A Certificate Purchase Agreement, dated November 4, 2004, by and among Prime II Receivables Corporation ("Prime II"), FDS Bank, Bank One, NA and Jupiter Securitization Corporation

- 10.3 First Amendment to Class B Certificate Purchase Agreement, dated November 4, 2004, by and among Prime II, FDS Bank, Bank One, NA and Jupiter Securitization Corporation
- 10.4 Fifth Amendment to Class A Certificate Purchase Agreement, dated November 29, 2004, by and among Prime II, FDS Bank, Market Street Funding Corporation and PNC Bank, National Association
- 10.5 Fifth Amendment to Class B Certificate Purchase Agreement, dated November 29, 2004, by and among Prime II, FDS Bank, Market Street Funding Corporation and PNC Bank, National Association
- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a).
- 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a).
- 32.1 Certifications by Chief Executive Officer and Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act.

B. Reports on Form 8-K

- 1. Current report on Form 8-K, dated August 5, 2004, reporting matters under items 5, 7 and 12 thereof.
- 2. Current report on Form 8-K, dated August 11, 2004, reporting matters under items 7 and 12 thereof.

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**FEDERATED DEPARTMENT STORES, INC.**

SIGNATURES

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

FEDERATED DEPARTMENT STORES, INC.

Dated: December 9, 2004

By: /s/ Dennis J. Broderick

Name: Dennis J. Broderick

Title: Senior Vice President, General Counsel  
and Secretary

By: /s/ Joel A. Belsky

Name: Joel A. Belsky

Title: Vice President and Controller  
(Principal Accounting Officer)

# COMMERCIAL PAPER DEALER AGREEMENT

## 4(2) PROGRAM

between

**Federated Department Stores, Inc., as Issuer**

and

**Banc of America Securities LLC, as Dealer**

**Concerning Notes to be issued pursuant to an Issuing and Paying Agency Agreement dated as of January 30, 1997 between the Issuer and Citibank, N.A., as Issuing and Paying Agent**

**Dated as of**

**September 30, 2004**

### COMMERCIAL PAPER DEALER AGREEMENT

This agreement ("Agreement") sets forth the understandings between the Issuer and the Dealer, each named on the cover page hereof, in connection with the issuance and sale by the Issuer of its short-term promissory notes (the "Notes") through the Dealer.

Certain terms used in this Agreement are defined in Section 6 hereof.

The Addendum to this Agreement, and any Annexes or Exhibits described in this Agreement or such Addendum, are hereby incorporated into this Agreement and made fully a part hereof.

#### Section 1. Offers, Sales and Resales of Notes.

1. While (i) the Issuer has and shall have no obligation to sell the Notes to the Dealer or to permit the Dealer to arrange any sale of the Notes for the account of the Issuer, and (ii) the Dealer has and shall have no obligation to purchase the Notes from the Issuer or to arrange any sale of the Notes for the account of the Issuer, the parties hereto agree that in any case where the Dealer purchases Notes from the Issuer, or arranges for the sale of Notes by the Issuer, such Notes will be purchased or sold by the Dealer in reliance on the representations, warranties, covenants and agreements of the Issuer contained herein or made pursuant hereto and on the terms and conditions and in the manner provided herein.
2. So long as this Agreement shall remain in effect, and in addition to the limitations contained in Section 1.7 hereof, the Issuer shall not, without the consent of the Dealer, offer, solicit or accept offers to purchase, or sell, any Notes except (a) in transactions with one or more dealers which may from time to time after the date hereof become dealers with respect to the Notes by executing with the Issuer one or more agreements which contain provisions substantially identical to those contained in Section 1 of this Agreement, of which the Issuer hereby undertakes to provide the Dealer prompt notice or (b) in transactions with the other dealers listed on the Addendum hereto, which are executing agreements with the Issuer which contain provisions substantially identical to Section 1 of this Agreement contemporaneously herewith. In no event shall the Issuer offer, solicit or accept offers to purchase, or sell, any Notes directly on its own behalf in transactions with persons other than broker-dealers as specifically permitted in this Section 1.2.
3. The Notes shall be in a minimum denomination of \$250,000 or integral multiples of \$1,000 in excess thereof, will bear such interest rates, if interest bearing, or will be sold at such discount from their face amounts, as shall be agreed upon by the Dealer and the Issuer, shall have a maturity not exceeding 270 days from the date of issuance (exclusive of days of grace) and shall not contain any provision for extension, renewal or automatic "rollover."
4. The authentication and issuance of, and payment for, the Notes shall be effected in accordance with the Issuing and Paying Agency Agreement, and the Notes shall be either individual physical certificates or book-entry notes evidenced by a Master Note registered in the name of DTC or its nominee, in the form or

- forms annexed to the Issuing and Paying Agency Agreement. The Dealer agrees to keep confidential the user number identification and password given to it pursuant to the Issuing and Paying Agency Agreement.
5. If the Issuer and the Dealer shall agree on the terms of the purchase of any Note by the Dealer or the sale of any Note arranged by the Dealer (including, but not limited to, agreement with respect to the date of issue, purchase price, principal amount, maturity and interest rate (in the case of interest-bearing Notes) or discount thereof (in the case of Notes issued on a discount basis), and appropriate compensation for the Dealer's services hereunder) pursuant to this Agreement, the Issuer shall cause such Note to be issued and delivered in accordance with the terms of the Issuing and Paying Agency Agreement and payment for such Note shall be made by the purchaser thereof, either directly or through the Dealer, to the Issuing and Paying Agent, for the account of the Issuer. Except as otherwise agreed, in the event that the Dealer is acting as an agent and a purchaser shall either fail to accept delivery of or make payment for a Note on the date fixed for settlement, the Dealer shall promptly notify the Issuer, and if the Dealer has theretofore paid the Issuer for the Note, the Issuer will promptly return such funds to the Dealer against its return of the Note to the Issuer, in the case of a certificated Note, and upon notice of such failure in the case of a book-entry Note. If such failure occurred for any reason other than default by the Dealer, the Issuer shall reimburse the Dealer on an equitable basis for the Dealer's loss of the use of such funds for the period such funds were credited to the Issuer's account.
  6. The Dealer and the Issuer hereby establish and agree to observe the following procedures in connection with offers, sales and subsequent resales or other transfers of the Notes:
    - a. Offers and sales of the Notes by or through the Dealer shall be, made only to: (i) investors reasonably believed by the Dealer to be Qualified Institutional Buyers ("QIBs"), Institutional Accredited Investors or Sophisticated Individual Accredited Investors and (ii) non-bank fiduciaries or agents that will be purchasing Notes for one or more accounts, each of which is reasonably believed by the Dealer to be an Institutional Accredited Investor or Sophisticated Individual Accredited Investor.
    - b. Resales and other transfers of the Notes by the holders thereof shall be made only in accordance with the restrictions in the legend described in clause (e) below.
    - c. No general solicitation or general advertising shall be used in connection with the offering of the Notes. Without limiting the generality of the foregoing, without the prior written approval of the Dealer, the Issuer shall not issue any press release or place or publish any "tombstone" or other advertisement relating to the Notes. The Dealer shall not use any materials other than the Private Placement Memorandum as then approved by the Issuer (or such other materials as may from time to time be approved by the Issuer) in connection with the offer and sale of the Notes.
    - d. No sale of Notes to any one purchaser shall be for less than \$250,000 principal or face amount, and no Note shall be issued in a smaller principal or face amount. If the purchaser is a non-bank fiduciary acting on behalf of others, each person for whom such purchaser is acting must purchase at least \$250,000 principal or face amount of Notes.
    - e. Offers and sales of the Notes by the Issuer through the Dealer acting as agent for the Issuer shall be made in accordance with Rule 506 under the Securities Act, and shall be subject to the restrictions described in the legend appearing on Exhibit A hereto. A legend substantially to the effect of such Exhibit A shall appear as part of the Private Placement Memorandum used in connection with offers and sales of Notes hereunder, as well as on each individual certificate representing a Note and each Master Note representing book-entry Notes offered and sold pursuant to this Agreement.
    - f. The Dealer shall furnish or shall have furnished to each purchaser of Notes for which it has acted as the Dealer a copy of the then-current Private Placement Memorandum unless such purchaser has previously received a copy of the Private Placement Memorandum as then in effect. The Private Placement Memorandum shall expressly state that any person to whom Notes are offered shall have an opportunity to ask questions of, and receive information from, the Issuer and the Dealer and shall provide the names, addresses and telephone numbers of the persons from whom information regarding the Issuer may be obtained.
    - g. The Issuer agrees, for the benefit of the Dealer and each of the holders and prospective purchasers from time to time of the Notes that, if at any time the Issuer shall not be subject to Section 13 or 15(d) of the Exchange Act, the Issuer will furnish, upon request and at its expense, to the Dealer and to holders and prospective purchasers of Notes information required by Rule 144A(d)(4)(i) in compliance with Rule 144A(d).
    - h. In the event that any Note offered or to be offered by the Dealer would be ineligible for resale under Rule 144A, the Issuer shall immediately notify the Dealer (by telephone, confirmed in writing) of such fact and shall promptly prepare and deliver to the Dealer an amendment or supplement to the

- Private Placement Memorandum describing the Notes that are ineligible, the reason for such ineligibility and any other relevant information relating thereto.
- i. The Issuer represents that it is not currently issuing commercial paper in the United States market in reliance upon, and in compliance with, the exemption provided by Section 3(a)(3) of the Securities Act. However, the Issuer agrees that if the Issuer were to issue such 3(a)(3) commercial paper, (a) the proceeds from the sale of the Notes would be segregated from the proceeds of the sale of any such commercial paper by being placed in a separate account; (b) the Issuer would institute appropriate corporate procedures to ensure that the offers and sales of notes issued by the Issuer pursuant to the Section 3(a)(3) exemption would not be integrated with offerings and sales of Notes hereunder; and (c) the Issuer would comply with each of the requirements of Section 3(a)(3) of the Securities Act in selling commercial paper or other short-term debt securities other than the Notes in the United States.
  - j. The Issuer hereby agrees that, not later than 15 days after the first sale of Notes as contemplated by this Agreement, it will file with the SEC a notice on Form D in accordance with Rule 503 under the Securities Act and that it will thereafter file such amendments to such notice as Rule 503 may require.
7. The Issuer hereby represents and warrants to the Dealer, in connection with offers; sales and resales of Notes, as follows:
- a. The Issuer hereby confirms to the Dealer that (except as permitted by Section 1.6(i)) within the preceding six months neither the Issuer nor any person other than the Dealer or the other dealers referred to in Section 1.2 hereof acting on behalf of the Issuer has offered or sold any Notes, or any substantially similar security of the Issuer (including, without limitation, medium-term notes issued by the Issuer), to, or solicited offers to buy any such security from, any person other than the Dealer or the other dealers referred to in Section 1.2 hereof (including for purposes of this Section 1.7(a) other dealers who would be so referred to but for the fact that they executed agreements of the type referred to in such Section 1.2 prior to the date hereof). The Issuer also agrees that (except as permitted by Section 1.6(i)), as long as the Notes are being offered for sale by the Dealer and the other dealers referred to in Section 1.2 hereof as contemplated hereby and until at least six months after the offer of Notes hereunder has been terminated, neither the Issuer nor any person other than the Dealer or the other dealers referred to in Section 1.2 hereof (except as contemplated by Section 1.2 hereof) will offer the Notes or any substantially similar security of the Issuer for sale to, or solicit offers to buy any such security from, any person other than the Dealer or the other dealers referred to in Section 1.2 hereof, it being understood that such agreement is made with a view to bringing the offer and sale of the Notes within the exemption provided by Section 4(2) of the Securities Act and Rule 506 thereunder and shall survive any termination of this Agreement. The Issuer hereby represents and warrants that it has not taken or omitted to take, and will not take or omit to take, any action that would cause the offering and sale of Notes hereunder to be integrated with any other offering of securities, whether such offering is made by the Issuer or some other party or parties.
  - b. In the event that the Dealer purchases Notes as principal and does not resell such Notes on the day of such purchase, to the extent necessary to comply with Regulation T and the interpretations thereunder, the Dealer will sell such Notes either (i) only to offerees it reasonably believes to be QIBs or to QIBs it reasonably believes are acting for other QIBs, in each case in accordance with Rule 144A or (ii) in a manner which would not cause a violation of Regulation T and the interpretations thereunder.

## Section 2. Representations and Warranties of Issuer.

The Issuer represents and warrants that:

1. The Issuer is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation and has all the requisite power and authority to execute, deliver and perform its obligations under the Notes, this Agreement and the Issuing and Paying Agency Agreement.
2. This Agreement and the Issuing and Paying Agency Agreement have been duly authorized, executed and delivered by the Issuer and constitute legal, valid and binding obligations of the Issuer enforceable against the Issuer in accordance with their terms, subject to applicable bankruptcy, insolvency and similar laws affecting creditors' rights generally, and subject, as to enforceability, to general principles of equity (regardless of whether enforcement is sought in a proceeding in equity or at law).
3. The Notes have been duly authorized, and when issued as provided in the Issuing and Paying Agency Agreement, will be duly and validly issued and will constitute legal, valid and binding obligations of the

Issuer enforceable against the Issuer in accordance with their terms, subject to applicable bankruptcy, insolvency and similar laws affecting creditors' rights generally, and subject, as to enforceability, to general principles of equity (regardless of whether enforcement is sought in a proceeding in equity or at law).

4. The offer and sale of Notes in the manner contemplated hereby do not require registration of the Notes under the Securities Act, pursuant to the exemption from registration contained in Section 4(2) thereof and Regulation D thereunder, and no indenture in respect of the Notes is required to be qualified under the Trust Indenture Act of 1939, as amended. Neither the Issuer nor any affiliate (as defined in Regulation 501(b) of Regulation D), will sell, offer for sale or solicit offers to buy or otherwise negotiate in respect of any security (as defined in the Securities Act) which will be integrated with the sale of the Notes in a manner which would require the registration of the Notes under the Securities Act.
5. The Notes will rank at least pari passu with all other unsecured and unsubordinated indebtedness of the Issuer.
6. Except as provided in Section 1.6(j), no consent or action of, or filing or registration with, any governmental or public regulatory body or authority, including the SEC, is required to authorize, or is otherwise required in connection with the execution, delivery or performance of this Agreement, the Notes or the Issuing and Paying Agency Agreement, except as may be required by the securities or Blue Sky laws of the various states in connection with the offer and sale of the Notes.
7. Neither the execution and delivery of this Agreement and the Issuing and Paying Agency Agreement, nor the issuance of the Notes in accordance with the Issuing and Paying Agency Agreement, nor the fulfillment of or compliance with the terms and provisions hereof or thereof by the Issuer, will (i) result in the creation or imposition of any mortgage, lien, charge or encumbrance of any nature whatsoever upon any of the properties or assets of the Issuer, or (ii) violate or result in a breach or a default under any of the terms of the Issuer's charter documents or by-laws, any contract or instrument to which the Issuer is a party or by which it or its property is bound, or any law or regulation, or any order, writ, injunction or decree of any court or government instrumentality, to which the Issuer is subject or by which it or its property is bound, which breach or default might have a material adverse effect on the condition (financial or otherwise), operations or business prospects of the Issuer or the ability of the Issuer to perform its obligations under this Agreement, the Notes or the Issuing and Paying Agency Agreement.
8. There is no litigation or governmental proceeding pending, or to the knowledge of the Issuer threatened, against or affecting the Issuer or any of its subsidiaries which might result in a material adverse change in the condition (financial or otherwise), operations or business prospects of the Issuer or the ability of the Issuer to perform its obligations under this Agreement, the Notes or the Issuing and Paying Agency Agreement.
9. The Issuer is not an "investment company" or an entity "controlled" by an "investment company" within the meaning of the Investment Company Act of 1940, as amended.
10. Neither the Private Placement Memorandum nor the Company Information contains any untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, provided that the Issuer makes no representation and warranty regarding the Dealer Information.
11. Each (a) issuance of Notes by the Issuer hereunder and (b) amendment or supplement of the Private Placement Memorandum shall be deemed a representation and warranty by the Issuer to the Dealer, as of the date thereof, that, both before and after giving effect to such issuance and after giving effect to such amendment or supplement, (i) the representations and warranties given by the Issuer set forth above in this Section 2 remain true and correct on and as of such date as if made on and as of such date, (ii) in the case of an issuance of Notes, the Notes being issued on such date have been duly and validly issued and constitute legal, valid and binding obligations of the Issuer, enforceable against the Issuer in accordance with their terms, subject to applicable bankruptcy, insolvency and similar laws affecting creditors' rights generally and subject, as to enforceability, to general principles of equity (regardless of whether enforcement is sought in a proceeding in equity or at law) and (iii) in the case of an issuance of Notes, since the date of the most recent Private Placement Memorandum, there has been no material adverse change in the condition (financial or otherwise), operations or business prospects of the Issuer which has not been disclosed to the Dealer in writing.

### Section 3. Covenants and Agreements of Issuer.

The Issuer covenants and agrees that:

1. The Issuer will give the Dealer prompt notice (but in any event prior to any subsequent issuance of Notes hereunder) of any amendment to, modification of or waiver with respect to, the Notes or the Issuing and

- Paying Agency Agreement, including a complete copy of any such amendment, modification or waiver.
2. The Issuer shall, whenever there shall occur any change in the Issuer's condition (financial or otherwise), operations or business prospects or any development or occurrence in relation to the Issuer that would be material to holders of the Notes or potential holders of the Notes (including any downgrading or receipt of any notice of intended or potential downgrading or any review for potential change in the rating accorded any of the Issuer's securities by any nationally recognized statistical rating organization which has published a rating of the Notes), promptly, and in any event prior to any subsequent issuance of Notes hereunder, notify the Dealer (by telephone, confirmed in writing) of such change, development or occurrence.
  3. The Issuer shall from time to time furnish to the Dealer such information as the Dealer may reasonably request, including, without limitation, any press releases or material provided by the Issuer to any national securities exchange or rating agency, regarding (i) the Issuer's operations and financial condition, (ii) the due authorization and execution of the Notes and (iii) the Issuer's ability to pay the Notes as they mature.
  4. The Issuer will take all such action as the Dealer may reasonably request to ensure that each offer and each sale of the Notes will comply with any applicable state Blue Sky laws; provided, however, that the Issuer shall not be obligated to file any general consent to service of process or to qualify as a foreign corporation in any jurisdiction in which it is not so qualified or subject itself to taxation in respect of doing business in any jurisdiction in which it is not otherwise so subject.
  5. The Issuer will not be in default of any of its obligations hereunder, under the Notes or under the Issuing and Paying Agency Agreement, at any time that any of the Notes are outstanding.
  6. The Issuer shall not issue Notes hereunder until the Dealer shall have received (a) an opinion of counsel to the Issuer, addressed to the Dealer, satisfactory in form and substance to the Dealer, (b) a copy of the executed Issuing and Paying Agency Agreement as then in effect, (c) a copy of resolutions adopted by the Board of Directors of the Issuer, satisfactory in form and substance to the Dealer and certified by the Secretary or similar officer of the Issuer, authorizing execution and delivery by the Issuer of this Agreement, the Issuing and Paying Agency Agreement and the Notes and consummation by the Issuer of the transactions contemplated hereby and thereby, (d) prior to the issuance of any Notes represented by a book-entry note registered in the name of DTC or its nominee, a copy of the executed Letter of Representations among the Issuer, the Issuing and Paying Agent and DTC and (e) such other certificates, opinions, letters and documents as the Dealer shall have reasonably requested.
  7. The Issuer shall reimburse the Dealer for all of the Dealer's out-of-pocket expenses related to this Agreement, including expenses incurred in connection with its preparation and negotiation, and the transactions contemplated hereby (including, but not limited to, the printing and distribution of the Private Placement Memorandum), and, if applicable, for the reasonable fees and out-of-pocket expenses of the Dealer's counsel.

#### Section 4. Disclosure.

1. The Private Placement Memorandum and its contents (other than the Dealer Information) shall be the sole responsibility of the Issuer. The Private Placement Memorandum shall contain a statement expressly offering an opportunity for each prospective purchaser to ask questions of, and receive answers from, the Issuer concerning the offering of Notes and to obtain relevant additional information which the Issuer possesses or can acquire without unreasonable effort or expense.
2. The Issuer agrees to promptly furnish the Dealer the Company Information as it becomes available.
3. a. The Issuer further agrees to notify the Dealer promptly upon the occurrence of any event relating to or affecting the Issuer that would cause the Company Information then in existence to include an untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements contained therein, in light of the circumstances under which they are made, not misleading.
  - b. In the event that the Issuer gives the Dealer notice pursuant to Section 4.3(a) and the Dealer notifies the Issuer that it then has Notes it is holding in inventory, the Issuer agrees promptly to supplement or amend the Private Placement Memorandum so that the Private Placement Memorandum, as amended or supplemented, shall not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading, and the Issuer shall make such supplement or amendment available to the Dealer.
  - c. In the event that (i) the Issuer gives the Dealer notice pursuant to Section 4.3(a), (ii) the Dealer does not notify the Issuer that it is then holding Notes in inventory and (iii) the Issuer chooses not to promptly amend or supplement the Private Placement Memorandum in the

manner described in clause (b) above, then all solicitations and sales of Notes shall be suspended until such time as the Issuer has so amended or supplemented the Private Placement Memorandum, and made such amendment or supplement available to the Dealer.

Section 5. Indemnification and Contribution.

1. The Issuer will indemnify and hold harmless the Dealer, each individual, corporation, partnership, trust, association or other entity controlling the Dealer, any affiliate of the Dealer or any such controlling entity and their respective directors, officers, employees, partners, incorporators, shareholders, servants, trustees and agents (hereinafter the "Indemnitees") against any and all liabilities, penalties, suits, causes of action, losses, damages, claims, costs and expenses (including, without limitation, fees and disbursements of counsel) or judgments of whatever kind or nature (each a "Claim"), imposed upon, incurred by or asserted against the Indemnitees arising out of or based upon (i) any allegation that the Private Placement Memorandum, the Company Information or any information provided by the Issuer to the Dealer included (as of any relevant time) or includes an untrue statement of a material fact or omitted (as of any relevant time) or omits to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading or (ii) arising out of or based upon the breach by the Issuer of any agreement, covenant or representation made in or pursuant to this Agreement. This indemnification shall not apply to the extent that the Claim arises out of or is based upon Dealer Information.
2. Provisions relating to claims made for indemnification under this Section 5 are set forth on Exhibit B to this Agreement.
3. In order to provide for just and equitable contribution in circumstances in which the indemnification provided for in this Section 5 is held to be unavailable or insufficient to hold harmless the Indemnitees, although applicable in accordance with the terms of this Section 5, the Issuer shall contribute to the aggregate costs incurred by the Dealer in connection with any Claim in the proportion of the respective economic interests of the Issuer and the Dealer; provided, however, that such contribution by the Issuer shall be in an amount such that the aggregate costs incurred by the Dealer do not exceed the aggregate of the commissions and fees earned by the Dealer hereunder with respect to the issue or issues of Notes to which such Claim relates. The respective economic interests shall be calculated by reference to the aggregate proceeds to the Issuer of the Notes issued hereunder and the aggregate commissions and fees earned by the Dealer hereunder.

Section 6. Definitions.

1. "Claim" shall have the meaning set forth in Section 5.1.
2. "Company Information" at any given time shall mean the Private Placement Memorandum together with, to the extent applicable, (i) the Issuer's most recent report on Form 10-K filed with the SEC and each report on Form 10-Q or 8-K filed by the Issuer with the SEC since the most recent Form 10-K, (ii) the Issuer's most recent annual audited financial statements and each interim financial statement or report prepared subsequent thereto, if not included in item (i) above, (iii) the Issuer's and its affiliates' other publicly available recent reports, including, but not limited to, any publicly available filings or reports provided to their respective shareholders, (iv) any other information or disclosure prepared pursuant to Section 4.3 hereof and (v) any information prepared or approved by the Issuer for dissemination to investors or potential investors in the Notes.
3. "Dealer Information" shall mean material concerning the Dealer provided by the Dealer in writing expressly for inclusion in the Private Placement Memorandum.
4. "DTC" shall mean The Depository Trust Company.
5. "Exchange Act" shall mean the U.S. Securities Exchange Act of 1934, as amended.
6. "Indemnatee" shall have the meaning set forth in Section 5.1.
7. "Institutional Accredited Investor" shall mean an institutional investor that is an accredited investor within the meaning of Rule 501 under the Securities Act and that has such knowledge and experience in financial and business matters that it is capable of evaluating and bearing the economic risk of an investment in the Notes, including, but not limited to, a bank, as defined in Section 3(a)(2) of the Securities Act, or a savings and loan association or other institution, as defined in Section 3(a)(5)(A) of the Securities Act, whether acting in its individual or fiduciary capacity.
8. "Issuing and Paying Agency Agreement" shall mean the issuing and paying agency agreement described on the cover page of this Agreement, as such agreement may be amended or supplemented from time to time.
9. "Issuing and Paying Agent" shall mean the party designated as such on the cover page of this Agreement,

as issuing and paying agent under the Issuing and Paying Agency Agreement, or any successor thereto in accordance with the Issuing and Paying Agency Agreement.

10. "Non-bank fiduciary or agent" shall mean a fiduciary or agent other than (a) a bank, as defined in Section 3(a)(2) of the Securities Act, or (b) a savings and loan association, as defined in Section 3(a)(5)(A) of the Securities Act.
11. "Private Placement Memorandum" shall mean offering materials prepared in accordance with Section 4 (including materials referred to therein or incorporated by reference therein) provided to purchasers and prospective purchasers of the Notes, and shall include amendments and supplements thereto which may be prepared from time to time in accordance with this Agreement (other than any amendment or supplement that has been completely superseded by a later amendment or supplement).
12. "Qualified Institutional Buyer" shall have the meaning assigned to that term in Rule 144A under the Securities Act.
13. "Regulation D" shall mean Regulation D (Rules 501 et seq.) under the Securities Act.
14. "Rule 144A" shall mean Rule 144A under the Securities Act.
15. "SEC" shall mean the U.S. Securities and Exchange Commission.
16. "Securities Act" shall mean the U.S. Securities Act of 1933, as amended.
17. "Sophisticated Individual Accredited Investor" shall mean an individual who (a) is an accredited investor within the meaning of Regulation D under the Securities Act and (b) based on his or her pre-existing relationship with the Dealer, is reasonably believed by the Dealer to be a sophisticated investor (i) possessing such knowledge and experience (or represented by a fiduciary or agent possessing such knowledge and experience) in financial and business matters that he or she is capable of evaluating and bearing the economic risk of an investment in the Notes and (ii) having a net worth of at least \$5 million.

#### Section 7. General.

1. Unless otherwise expressly provided herein, all notices under this Agreement to parties hereto shall be in writing and shall be effective when received at the address of the respective party set forth in the Addendum to this Agreement.
2. This Agreement shall be governed by and construed in accordance with the laws of the State of New York, without regard to its conflict of laws provisions.
3. The Issuer agrees that any suit, action or proceeding brought by the Issuer against the Dealer in connection with or arising out of this Agreement or the Notes or the offer and sale of the Notes shall be brought solely in the United States federal courts located in the Borough of Manhattan or the courts of the State of New York located in the Borough of Manhattan. EACH OF THE DEALER AND THE ISSUER WAIVES ITS RIGHT TO TRIAL BY JURY IN ANY SUIT, ACTION OR PROCEEDING WITH RESPECT TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.
4. This Agreement may be terminated, at any time, by the Issuer, upon one business day's prior notice to such effect to the Dealer, or by the Dealer upon one business day's prior notice to such effect to the Issuer. Any such termination, however, shall not affect the obligations of the Issuer under Sections 3.7, 5 and 7.3 hereof or the respective representations, warranties, agreements, covenants, rights or responsibilities of the parties made or arising prior to the termination of this Agreement.
5. This Agreement is not assignable by either party hereto without the written consent of the other party; provided, however, that the Dealer may assign its rights and obligations under this Agreement to any affiliate of the Dealer.
6. This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.
7. This Agreement is for the exclusive benefit of the parties hereto, and their respective permitted successors and assigns hereunder, and shall not be deemed to give any legal or equitable right, remedy or claim to any other person whatsoever. No purchaser of any of the Notes from the Dealer shall be deemed a successor or assign by reason merely of such purchase.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the date and year first above written.

**Federated Department Stores, Inc., as Issuer**

By: /s/ Karen M. Hoguet

Name: Karen M. Hoguet

Title: Senior Vice President and Chief Executive Officer

**Banc of America Securities LLC, as Dealer**

By: /s/ Stephen R. Austen  
Name: Stephen R. Austen  
Title: Managing Director

## **ADDENDUM**

The following additional clauses shall apply to the Agreement and be deemed a part thereof.

1. The other dealers referred to in clause (b) of Section 1.2 of the Agreement are Goldman, Sachs & Co. and JP Morgan Securities Inc.
2. The addresses of the respective parties for purposes of notices under Section 7.1 are as follows:

|                   |   |
|-------------------|---|
| For the Issuer:   | Federated Department Stores, Inc.               |
| Address:          | 7 West Seventh Street<br>Cincinnati, Ohio 45202 |
| Attention:        | Susan P. Storer                                 |
| Telephone number: | 513-579-7775                                    |
| Fax number:       | 513-579-7393                                    |

|                   |   |
|-------------------|---|
| For the Dealer:   | Banc of America Securities LLC  |
| Address:          | 600 Montgomery Street<br>Mail Code CA5-801-15-31<br>San Francisco, California 94111 |
| Attention:        | Manager   |
| Telephone number: | 415-913-3689  |
| Fax number:       | 415-913-6288  |

EXHIBIT A

## **FORM OF LEGEND FOR PRIVATE PLACEMENT MEMORANDUM AND NOTES**

THE NOTES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR ANY OTHER APPLICABLE SECURITY LAW, AND OFFERS AND SALES THEREOF MAY BE MADE ONLY IN COMPLIANCE WITH AN APPLICABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE ACT AND ANY APPLICABLE STATE SECURITIES LAWS. BY ITS ACCEPTANCE OF A NOTE, THE PURCHASER WILL BE DEEMED TO REPRESENT THAT IT HAS BEEN AFFORDED AN OPPORTUNITY TO INVESTIGATE MATTERS RELATING TO THE ISSUER AND THE NOTES, THAT IT IS NOT ACQUIRING SUCH NOTE WITH A VIEW TO ANY DISTRIBUTION THEREOF AND THAT IT IS EITHER (A) AN INSTITUTIONAL INVESTOR OR SOPHISTICATED INDIVIDUAL INVESTOR THAT IS AN ACCREDITED INVESTOR WITHIN THE MEANING OF RULE 501(a) UNDER THE ACT AND WHICH, IN THE CASE OF AN INDIVIDUAL, (i) POSSESSES SUCH KNOWLEDGE AND EXPERIENCE IN FINANCIAL AND BUSINESS MATTERS THAT HE OR SHE IS CAPABLE OF EVALUATING AND BEARING THE ECONOMIC RISK OF AN INVESTMENT IN THE NOTES AND (ii) HAS A NET WORTH OF AT LEAST \$5 MILLION (AN

"INSTITUTIONAL ACCREDITED INVESTOR" OR "SOPHISTICATED INDIVIDUAL ACCREDITED INVESTOR", RESPECTIVELY) AND THAT EITHER IS PURCHASING NOTES FOR ITS OWN ACCOUNT, IS A U.S. BANK (AS DEFINED IN SECTION 3(a)(2) OF THE ACT) OR A SAVINGS AND LOAN ASSOCIATION OR OTHER INSTITUTION (AS DEFINED IN SECTION 3(a)(5)(A) OF THE ACT) ACTING IN ITS INDIVIDUAL OR FIDUCIARY CAPACITY OR IS A FIDUCIARY OR AGENT (OTHER THAN A U.S. BANK OR SAVINGS AND LOAN ASSOCIATION) PURCHASING NOTES FOR ONE OR MORE ACCOUNTS EACH OF WHICH IS SUCH AN INSTITUTIONAL ACCREDITED INVESTOR OR SOPHISTICATED INDIVIDUAL ACCREDITED INVESTOR (i) WHICH ITSELF POSSESSES SUCH KNOWLEDGE AND EXPERIENCE OR (ii) WITH RESPECT TO WHICH SUCH PURCHASER HAS SOLE INVESTMENT DISCRETION; OR (B) A QUALIFIED INSTITUTIONAL BUYER ("QIB") WITHIN THE MEANING OF RULE 144A UNDER THE ACT WHICH IS ACQUIRING NOTES FOR ITS OWN ACCOUNT OR FOR ONE OR MORE ACCOUNTS, EACH OF WHICH IS A QIB AND WITH RESPECT TO EACH OF WHICH THE PURCHASER HAS SOLE INVESTMENT DISCRETION; AND THE PURCHASER ACKNOWLEDGES THAT IT IS AWARE THAT THE SELLER MAY RELY UPON THE EXEMPTION FROM THE REGISTRATION PROVISIONS OF SECTION 5 OF THE ACT PROVIDED BY RULE 144A. BY ITS ACCEPTANCE OF A NOTE, THE PURCHASER THEREOF SHALL ALSO BE DEEMED TO AGREE THAT ANY RESALE OR OTHER TRANSFER THEREOF WILL BE MADE ONLY (A) IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE ACT, EITHER (1) TO THE ISSUER OR TO BANC OF AMERICA SECURITIES LLC OR ANOTHER PERSON DESIGNATED BY THE ISSUER AS A PLACEMENT AGENT FOR THE NOTES (COLLECTIVELY, THE "PLACEMENT AGENTS"), NONE OF WHICH SHALL HAVE ANY OBLIGATION TO ACQUIRE SUCH NOTE, (2) THROUGH A PLACEMENT AGENT TO AN INSTITUTIONAL ACCREDITED INVESTOR, SOPHISTICATED INDIVIDUAL ACCREDITED INVESTOR OR A QIB, OR (3) TO A QIB IN A TRANSACTION THAT MEETS THE REQUIREMENTS OF RULE 144A AND (B) IN MINIMUM AMOUNTS OF \$250,000.

## EXHIBIT B

### **Further provisions relating to INDEMNIFICATION**

- a. The Issuer agrees to reimburse each Indemnitee for all expenses (including reasonable fees and disbursements of internal and external counsel) as they are incurred by it in connection with investigating or defending any loss, claim, damage, liability or action in respect of which indemnification may be sought under Section 5 of the Agreement (whether or not it is party to any such proceedings).
- b. Promptly after receipt by an Indemnitee of notice of the existence of a Claim, such Indemnitee will, if a claim in respect thereof is to be made against the Issuer, notify the Issuer in writing of the existence thereof; provided that (i) the omission so to notify the Issuer will not relieve the Issuer from any liability which it may have hereunder unless and except to the extent it did not otherwise learn of such Claim and such failure results in the forfeiture by the Issuer of substantial rights and defenses, and (ii) the omission so to notify the Issuer will not relieve it from liability which it may have to an Indemnitee otherwise than on account of this indemnity agreement. In case any such Claim is made against any Indemnitee and it notifies the Issuer of the existence thereof, the Issuer will be entitled to participate therein, and to the extent that it may elect by written notice delivered to the Indemnitee, to assume the defense thereof, with counsel reasonably satisfactory to such Indemnitee; provided that if the defendants in any such Claim include both the Indemnitee and the Issuer, and the Indemnitee shall have concluded that there may be legal defenses available to it which are different from or additional to those available to the Issuer, the Issuer shall not have the right to direct the defense of such Claim on behalf of such Indemnitee, and the Indemnitee shall have the right to select separate counsel to assert such legal defenses on behalf of such Indemnitee. Upon receipt of notice from the Issuer to such Indemnitee of the Issuer's election so to assume the defense of such Claim and approval by the Indemnitee of counsel, the Issuer will not be liable to such Indemnitee for expenses incurred thereafter by the Indemnitee in connection with the defense thereof (other than reasonable costs of investigation) unless (i) the Indemnitee shall have employed separate counsel in connection with the assertion of legal defenses in accordance with the proviso to the next preceding sentence (it being understood, however, that the Issuer shall not be liable for the expenses of more than one separate counsel (in addition to any local counsel in the jurisdiction in which any Claim is brought), approved by the Dealer, representing the Indemnitee who is party to such Claim), (ii) the Issuer shall not have employed counsel reasonably satisfactory to the Indemnitee to represent the Indemnitee within a reasonable time after notice of existence of the Claim or (iii)

the Issuer has authorized in writing the employment of counsel for the Indemnitee. The indemnity, reimbursement and contribution obligations of the Issuer hereunder shall be in addition to any other liability the Issuer may otherwise have to an Indemnitee and shall be binding upon and inure to the benefit of any successors, assigns, heirs and personal representatives of the Issuer and any Indemnitee. The Issuer agrees that without the Dealer's prior written consent, it will not settle, compromise or consent to the entry of any judgment in any Claim in respect of which indemnification may be sought under the indemnification provision of the Agreement (whether or not the Dealer or any other Indemnitee is an actual or potential party to such Claim).

**FIRST AMENDMENT  
TO  
CLASS A CERTIFICATE PURCHASE AGREEMENT**

This First Amendment to Class A Certificate Purchase Agreement, dated as of November 4, 2004 (this "Amendment"), is among Prime II Receivables Corporation (the "Transferor"), FDS Bank (the "Servicer"), Bank One, NA (Main Office Chicago), as Agent (in such capacity, the "Agent"), as a Committed Class A Purchaser (in such capacity, the "Committed Purchaser"), and as a Class A Owner (in such capacity, the "Owner"), and Jupiter Securitization Corporation, as a Noncommitted Class A Purchaser (the "Noncommitted Purchaser", and together with the Committed Purchaser, the "Purchasers"). Capitalized terms used in this Amendment and not otherwise defined have the meanings assigned to such terms in the Purchase Agreement (as defined below).

Preliminary Statements:

1. The Transferor, the Servicer, the Agent, the Owner and the Purchasers are parties to that certain Class A Certificate Purchase Agreement, dated as of November 6, 2002 (as amended, restated, supplemented or otherwise modified from time to time, the "Purchase Agreement").
2. The Transferor and the Committed Purchaser desire to amend the Purchase Agreement to increase the amount of and to extend the Commitment Expiration Date of the Commitment of the Committed Purchaser.
3. Sections 2.2(c) and 9.1 of the Purchase Agreement permit such amendment of the Purchase Agreement with the written consent of the Agent, Transferor, the Committed Purchaser, the Required Class A Owners and the Required Class A Purchasers.
4. Under the Purchase Agreement, the Committed Purchaser is the only Class A Committed Purchaser and meets the definition of Required Class A Purchasers, and the Owner is the only Class A Owner and meets the definition of Required Class A Owners.

Agreement:

The Transferor, the Servicer, the Agent, the Owner and the Purchasers agree to the following terms and conditions:

1. Amendment. On the date of this Amendment, the Purchase Agreement is amended by (a) deleting the reference to the Commitment of the Committed Purchaser set forth on the signature page thereto and increasing the Commitment of the Committed Purchaser to a total maximum amount of \$244,444,445 and (b) extending the Commitment Expiration Date to November 3, 2005.
2. Effectiveness. This Amendment shall become effective as of the date hereof upon receipt by the Agent of counterparts of this Amendment (whether by facsimile or otherwise) executed by each of the Transferor, the Servicer, the Agent, the Owner and the Purchasers.
3. Continuing Agreement. The Purchase Agreement, as amended by this Amendment, continues in full force and effect among the Transferor, the Servicer, the Purchasers, the Agent and Administrative Agent.
4. Counterparts. This Amendment may be executed in any number of counterparts and by different parties on separate counterparts, each of which when so executed shall be deemed to an original and all of which when taken together shall constitute but one and the same instrument.
5. Governing Law. This Amendment shall be governed by, and construed in accordance with, the laws of the State of New York.
6. Section Headings. The various headings of this Amendment are included for convenience only and shall not affect the meaning or interpretation of this Amendment, the Purchase Agreement or any provision hereof or thereof.
7. Representations and Warranties. By its execution hereof, each of the Servicer and the Transferor shall be deemed to have represented and warranted the following:
  - a. as of the date of this Amendment, both before and after giving effect to this Amendment, all of the representations and warranties contained in the Purchase Agreement and in each other Related Document shall be true and correct in all material respects as though made on the date hereof (and by its execution hereof, each of the Servicer and the Transferor shall be deemed to have represented and warranted such); and
  - b. as of the date of this Amendment, both before and after giving effect to this Amendment, no Termination Event shall have occurred and be continuing (and by its execution hereof, each of the

Servicer and the Transferor shall be deemed to have represented and warranted such).

[The remainder of this page is intentionally left blank.]

Delivered as of the day and the year first above written.

**PRIME II RECEIVABLES CORPORATION**, as Transferor

By: /s/ Susan P. Storer

Name: Susan P. Storer

Title: President

**FDS BANK**, as Servicer

By: /s/ Susan R. Robinson

Name: Susan R. Robinson

Title: Treasurer

**BANK ONE, NA (MAIN OFFICE CHICAGO)**, as Agent,  
Committed Class A Purchaser and Class A Owner

By: /s/ William Hendricks

Name: William Hendricks

Title: Vice President

**JUPITER SECURITIZATION CORPORATION**, as  
Noncommitted Class A Purchaser

By: /s/ William Hendricks

Name: William Hendricks

Title: Authorized Signer

[Signature Page to Class A CPA Amendment]

**FIRST AMENDMENT  
TO  
CLASS B CERTIFICATE PURCHASE AGREEMENT**

This First Amendment to Class B Certificate Purchase Agreement, dated as of November 4, 2004 (this "Amendment"), is among Prime II Receivables Corporation (the "Transferor"), FDS Bank (the "Servicer"), Bank One, NA (Main Office Chicago), as Agent (in such capacity, the "Agent"), as a Committed Class B Purchaser (in such capacity, the "Committed Purchaser"), and as a Class B Owner (in such capacity, the "Owner"), and Jupiter Securitization Corporation, as a Noncommitted Class B Purchaser (the "Noncommitted Purchaser", and together with the Committed Purchaser, the "Purchasers"). Capitalized terms used in this Amendment and not otherwise defined have the meanings assigned to such terms in the Purchase Agreement (as defined below).

Preliminary Statements:

1. The Transferor, the Servicer, the Agent, the Owner and the Purchasers are parties to that certain Class B Certificate Purchase Agreement, dated as of November 6, 2002 (as amended, restated, supplemented or otherwise modified from time to time, the "Purchase Agreement").
2. The Transferor and the Committed Purchaser desire to amend the Purchase Agreement to increase the amount of and to extend the Commitment Expiration Date of the Commitment of the Committed Purchaser.
3. Sections 2.2(c) and 9.1 of the Purchase Agreement permit such amendment of the Purchase Agreement with the written consent of the Agent, Transferor, the Committed Purchaser, the Required Class B Owners and the Required Class B Purchasers.
4. Under the Purchase Agreement, the Committed Purchaser is the only Class B Committed Purchaser and meets the definition of Required Class B Purchasers, and the Owner is the only Class B Owner and meets the definition of Required Class B Owners.

Agreement:

The Transferor, the Servicer, the Agent, the Owner and the Purchasers agree to the following terms and conditions:

1. Amendment. On the date of this Amendment, the Purchase Agreement is amended by (a) deleting the reference to the Commitment of the Committed Purchaser set forth on the signature page thereto and increasing the Commitment of the Committed Purchaser to a total maximum amount of \$30,555,555 and (b) extending the Commitment Expiration Date to November 3, 2005.
2. Effectiveness. This Amendment shall become effective as of the date hereof upon receipt by the Agent of counterparts of this Amendment (whether by facsimile or otherwise) executed by each of the Transferor, the Servicer, the Agent, the Owner and the Purchasers.
3. Continuing Agreement. The Purchase Agreement, as amended by this Amendment, continues in full force and effect among the Transferor, the Servicer, the Purchasers, the Agent and Administrative Agent.
4. Counterparts. This Amendment may be executed in any number of counterparts and by different parties on separate counterparts, each of which when so executed shall be deemed to an original and all of which when taken together shall constitute but one and the same instrument.
5. Governing Law. This Amendment shall be governed by, and construed in accordance with, the laws of the State of New York.
6. Section Headings. The various headings of this Amendment are included for convenience only and shall not affect the meaning or interpretation of this Amendment, the Purchase Agreement or any provision hereof or thereof.
7. Representations and Warranties. By its execution hereof, each of the Servicer and the Transferor shall be deemed to have represented and warranted the following:
  - a. as of the date of this Amendment, both before and after giving effect to this Amendment, all of the representations and warranties contained in the Purchase Agreement and in each other Related Document shall be true and correct in all material respects as though made on the date hereof (and by its execution hereof, each of the Servicer and the Transferor shall be deemed to have represented and warranted such); and
  - b. as of the date of this Amendment, both before and after giving effect to this Amendment, no Termination Event shall have occurred and be continuing (and by its execution hereof, each of the

Servicer and the Transferor shall be deemed to have represented and warranted such).

[The remainder of this page is intentionally left blank.]

Delivered as of the day and the year first above written.

**PRIME II RECEIVABLES CORPORATION**, as Transferor

By: /s/ Susan P. Storer

Name: Susan P. Storer

Title: President

**FDS BANK**, as Servicer

By: /s/ Susan R. Robinson

Name: Susan R. Robinson

Title: Treasurer

**BANK ONE, NA (MAIN OFFICE CHICAGO)**, as Agent,  
Committed Class B Purchaser and Class B Owner

By: /s/ William Hendricks

Name: William Hendricks

Title: Vice President

**JUPITER SECURITIZATION CORPORATION**, as  
Noncommitted Class B Purchaser

By: /s/ William Hendricks

Name: William Hendricks

Title: Authorized Signer

[Signature Page to Class B CPA Amendment]

## EXECUTION COPY

**FIFTH AMENDMENT TO  
CLASS A CERTIFICATE PURCHASE AGREEMENT**

THIS FIFTH AMENDMENT TO CLASS A CERTIFICATE PURCHASE AGREEMENT (this "Amendment"), dated as of November 29, 2004, is entered into by and among PRIME II RECEIVABLES CORPORATION (the "Transferor"), FDS BANK, formerly known as FDS NATIONAL BANK, (the "Servicer"), MARKET STREET FUNDING CORPORATION (the "Class A Purchaser") and PNC BANK, NATIONAL ASSOCIATION (the "Agent").

**RECITALS**

**WHEREAS**, the Transferor, the Servicer, the Class A Purchaser and the Agent are parties to that certain Class A Certificate Purchase Agreement, dated as of July 6, 1999 (as amended, supplemented or otherwise modified from time to time, the "Agreement");

**WHEREAS**, the parties hereto desire to amend the Agreement as hereinafter set forth.

**NOW THEREFORE**, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

**SECTION 1. Certain Defined Terms.** Capitalized terms that are used herein without definition and that are defined in the Agreement shall have the same meanings herein as therein defined.

**SECTION 2. Amendment to Agreement.** Pursuant to Section 2.2(c) of the Agreement, the aggregate Commitment of the Class A Purchaser is hereby increased to the amount set forth underneath the signature of the Class A Purchaser hereto.

**SECTION 3. Representations and Warranties.** In order to induce the parties hereto to enter into this Amendment, each of the parties hereto represents and warrants unto the other parties hereto as set forth in this Section 3:

(a) Due Authorization, Non-Contravention, etc. The execution, delivery and performance by such party of this Amendment are within its powers, have been duly authorized by all necessary action, and do not: (a) contravene its organizational documents; or (b) contravene any contractual restriction, law or governmental regulation or court decree or order binding on or affecting it; and

(b) Validity, etc. This Amendment constitutes the legal, valid and binding obligation of such party enforceable against such party in accordance with its terms, subject to applicable bankruptcy, insolvency and similar laws affecting creditors' rights and general equitable principles.

**SECTION 4. Effect of Amendment.** All provisions of the Agreement, as expressly amended and modified by this Amendment, shall remain in full force and effect. After this Amendment becomes effective, all references in the Agreement to "this Agreement", "hereof", "herein" or words of similar effect referring to the Agreement shall be deemed to be references to the Agreement as amended by this Amendment. This Amendment shall not be deemed, either expressly or impliedly, to waive, amend or supplement any provision of the Agreement other than as set forth herein.

**SECTION 5. Effectiveness.** This Amendment shall become effective as of the date hereof upon receipt by the Agent of counterparts of this Amendment (whether by facsimile or otherwise) executed by each of the other parties hereto, in form and substance satisfactory to the Agent in its sole discretion.

**SECTION 6. Miscellaneous.**

(a) THIS AMENDMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK WITHOUT REFERENCE TO PRINCIPLES OF CONFLICTS OF LAW.

(b) Headings used herein are for convenience of reference only and shall not affect the meaning of this Amendment or any provision hereof.

(c) This Amendment may be executed in any number of counterparts, and by the parties hereto on separate

counterparts, each of which when executed and delivered shall be deemed to be an original and all of which taken together shall constitute one and the same agreement.

IN WITNESS WHEREOF, the parties have executed this Amendment as of the date first written above.

MARKET STREET FUNDING CORPORATION,  
as Class A Purchaser

By: /s/ Douglas K. Johnson

Name: Douglas K. Johnson

Title: President

Commitment: \$244,444,750

PNC BANK, NATIONAL ASSOCIATION,  
as Agent

By: /s/ John T. Smathers

Name: John T. Smathers

Title: Vice President

PRIME II RECEIVABLES CORPORATION,  
as Transferor

By: /s/ Susan P. Storer

Name: Susan P. Storer

Title: President

FDS BANK (f/k/a FDS National Bank),  
as Servicer

By: /s/ Susan R. Robinson

Name: Susan R. Robinson

Title: Treasurer

Acknowledged and agreed.

LLOYDS TSB BANK PLC

By: /s/ Victor Rutenberg

Name: Victor Rutenberg

Title: Assistant Vice President Structured Finance

By: /s/ Tim Self

Name: Tim Self

Title: Vice President Structured Finance

## EXECUTION COPY

**FIFTH AMENDMENT TO  
CLASS B CERTIFICATE PURCHASE AGREEMENT**

THIS FIFTH AMENDMENT TO CLASS B CERTIFICATE PURCHASE AGREEMENT (this "Amendment"), dated as of November 29, 2004, is entered into by and among PRIME II RECEIVABLES CORPORATION (the "Transferor"), FDS BANK, formerly known as FDS NATIONAL BANK, (the "Servicer"), MARKET STREET FUNDING CORPORATION (the "Class B Purchaser") and PNC BANK, NATIONAL ASSOCIATION (the "Agent").

**RECITALS**

**WHEREAS**, the Transferor, the Servicer, the Class B Purchaser and the Agent are parties to that certain Class B Certificate Purchase Agreement, dated as of July 6, 1999 (as amended, supplemented or otherwise modified from time to time, the "Agreement");

**WHEREAS**, the parties hereto desire to amend the Agreement as hereinafter set forth.

**NOW THEREFORE**, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

**SECTION 1. Certain Defined Terms.** Capitalized terms that are used herein without definition and that are defined in the Agreement shall have the same meanings herein as therein defined.

**SECTION 2. Amendment to Agreement.** Pursuant to Section 2.2(c) of the Agreement, the aggregate Commitment of the Class B Purchaser is hereby increased to the amount set forth underneath the signature of the Class B Purchaser hereto.

**SECTION 3. Representations and Warranties.** In order to induce the parties hereto to enter into this Amendment, each of the parties hereto represents and warrants unto the other parties hereto as set forth in this Section 3:

(a) Due Authorization, Non-Contravention, etc. The execution, delivery and performance by such party of this Amendment are within its powers, have been duly authorized by all necessary action, and do not: (a) contravene its organizational documents; or (b) contravene any contractual restriction, law or governmental regulation or court decree or order binding on or affecting it; and

(b) Validity, etc. This Amendment constitutes the legal, valid and binding obligation of such party enforceable against such party in accordance with its terms, subject to applicable bankruptcy, insolvency and similar laws affecting creditors' rights and general equitable principles.

**SECTION 4. Effect of Amendment.** All provisions of the Agreement, as expressly amended and modified by this Amendment, shall remain in full force and effect. After this Amendment becomes effective, all references in the Agreement to "this Agreement", "hereof", "herein" or words of similar effect referring to the Agreement shall be deemed to be references to the Agreement as amended by this Amendment. This Amendment shall not be deemed, either expressly or impliedly, to waive, amend or supplement any provision of the Agreement other than as set forth herein.

**SECTION 5. Effectiveness.** This Amendment shall become effective as of the date hereof upon receipt by the Agent of counterparts of this Amendment (whether by facsimile or otherwise) executed by each of the other parties hereto, in form and substance satisfactory to the Agent in its sole discretion.

**SECTION 6. Miscellaneous.**

(a) THIS AMENDMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK WITHOUT REFERENCE TO PRINCIPLES OF CONFLICTS OF LAW.

(b) Headings used herein are for convenience of reference only and shall not affect the meaning of this Amendment or any provision hereof.

(c) This Amendment may be executed in any number of counterparts, and by the parties hereto on separate

counterparts, each of which when executed and delivered shall be deemed to be an original and all of which taken together shall constitute one and the same agreement.

IN WITNESS WHEREOF, the parties have executed this Amendment as of the date first written above.

MARKET STREET FUNDING CORPORATION,  
as Class A Purchaser

By: /s/ Douglas K. Johnson

Name: Douglas K. Johnson

Title: President

Commitment: \$30,555,250

PNC BANK, NATIONAL ASSOCIATION,  
as Agent

By: /s/ John T. Smathers

Name: John T. Smathers

Title: Vice President

PRIME II RECEIVABLES CORPORATION,  
as Transferor

By: /s/ Susan P. Storer

Name: Susan P. Storer

Title: President

FDS BANK (f/k/a FDS National Bank),  
as Servicer

By: /s/ Susan R. Robinson

Name: Susan R. Robinson

Title: Treasurer

Acknowledged and agreed.

LLOYDS TSB BANK PLC

By: /s/ Victor Rutenberg

Name: Victor Rutenberg

Title: Assistant Vice President Structured Finance

By: /s/ Tim Self

Name: Tim Self

Title: Vice President Structured Finance

**CERTIFICATION**

I, Terry J. Lundgren, Chief Executive Officer of Federated Department Stores, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Federated Department Stores, Inc.;
2. Based on my knowledge, this quarterly 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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 report is being prepared;
  - b. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, 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 and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

December 9, 2004

/s/ Terry J. Lundgren  
Terry J. Lundgren

**CERTIFICATION**

I, Karen M. Hoguet, Chief Financial Officer of Federated Department Stores, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Federated Department Stores, Inc.;
2. Based on my knowledge, this quarterly 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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 report is being prepared;
  - b. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, 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 and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

December 9, 2004

/s/ Karen M. Hoguet  
Karen M. Hoguet

CERTIFICATION UNDER SECTION 906 OF THE SARBANES-OXLEY ACT

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 filing of the Form 10-Q of Federated Department Stores, Inc. (the "Company") for the fiscal quarter ended October 30, 2004, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), of the undersigned officers of the Company certifies, that, to such officer's knowledge:

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 as of the dates and for the periods expressed in the Report.

Dated: December 9, 2004

/s/ Terry L. Lundgren

Name: Terry J. Lundgren

Title: Chief Executive Officer

/s/ Karen M. Hoguet

Name: Karen M. Hoguet

Title: Chief Financial Officer