

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended April 29, 2006

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 1-13536

**Federated Department Stores, Inc.**

Incorporated in Delaware

I.R.S. No. 13-3324058

7 West Seventh Street  
Cincinnati, Ohio 45202

(513) 579-7000

and

151 West 34<sup>th</sup> Street  
New York, New York 10001

(212) 494-1602

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  
[X] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.  
Large accelerated filer [X] Accelerated filer [ ] Non-accelerated filer [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
Yes [ ] No [X]

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

Class	Outstanding at May 26, 2006
Common Stock, \$0.01 par value per share	<u>553,217,784 shares</u> (as adjusted to reflect a two-for-one stock split effected in the form of a stock dividend payable on June 9, 2006). -

**PART I -- FINANCIAL INFORMATION**

**FEDERATED DEPARTMENT STORES, INC.**

**Consolidated Statements of Operations**

(Unaudited)

(millions, except per share figures)

	13 Weeks Ended	
	April 29, 2006	April 30, 2005
Net Sales.....	\$ 5,930	\$ 3,641
Cost of sales.....	(3,627)	(2,176)
Inventory valuation adjustments - May integration.....	<u>(6)</u>	<u>-</u>
Gross margin.....	2,297	1,465
Selling, general and administrative expenses.....	(2,154)	(1,213)
May integration costs.....	<u>(123)</u>	<u>-</u>
Operating income.....	20	252
Interest expense.....	(142)	(60)
Interest income.....	<u>4</u>	<u>6</u>
Income (loss) from continuing operations before income taxes.....	(118)	198
Federal, state and local income tax benefit (expense).....	<u>44</u>	<u>(75)</u>
Income (loss) from continuing operations.....	(74)	123
Discontinued operations, net of income taxes.....	<u>22</u>	<u>-</u>
Net income (loss).....	<u>\$ (52)</u>	<u>\$ 123</u>
Basic earnings (loss) per share:.....		
Income (loss) from continuing operations.....	\$ (.13)	\$ .36
Income from discontinued operations.....	<u>.04</u>	<u>-</u>
Net income (loss).....	<u>\$ (.09)</u>	<u>\$ .36</u>
Diluted earnings (loss) per share:.....		
Income (loss) from continuing operations.....	\$ (.13)	\$ .36
Income from discontinued operations.....	<u>.04</u>	<u>-</u>
Net income (loss).....	<u>\$ (.09)</u>	<u>\$ .36</u>

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

**FEDERATED DEPARTMENT STORES, INC.**

**Consolidated Balance Sheets**

(Unaudited)

(millions)

	April 29, <u>2006</u>	January 28, <u>2006</u>	April 30, <u>2005</u>
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ASSETS

<b>Current Assets:</b>			
Cash and cash equivalents.....	\$ 241	\$ 248	\$ 918
Accounts receivable.....	2,300	2,522	3,313
Merchandise inventories.....	5,432	5,459	3,413
Supplies and prepaid expenses.....	267	203	125
Income tax receivable.....	217	-	-
Assets of discontinued operations.....	<u>2,045</u>	<u>1,713</u>	<u>-</u>
Total Current Assets.....	10,502	10,145	7,769
Property and Equipment - net.....	11,310	12,034	5,888
Goodwill.....	9,368	9,520	260
Other Intangible Assets - net.....	1,059	1,080	378
Other Assets.....	<u>888</u>	<u>389</u>	<u>711</u>
Total Assets.....	<u>\$33,127</u>	<u>\$33,168</u>	<u>\$15,006</u>

**LIABILITIES AND SHAREHOLDERS' EQUITY:**

<b>Current Liabilities:</b>			
Short-term debt.....	\$ 1,346	\$ 1,323	\$ 1,226
Accounts payable and accrued liabilities.....	5,154	5,246	2,789
Income taxes.....	200	454	227
Deferred income taxes.....	225	103	63
Liabilities of discontinued operations.....	<u>624</u>	<u>464</u>	<u>-</u>
Total Current Liabilities.....	7,549	7,590	4,305
Long-Term Debt.....	8,837	8,860	2,635
Deferred Income Taxes.....	1,679	1,704	1,108
Other Liabilities.....	1,550	1,495	586
Shareholders' Equity.....	<u>13,512</u>	<u>13,519</u>	<u>6,372</u>
Total Liabilities and Shareholders' Equity.....	<u>\$33,127</u>	<u>\$33,168</u>	<u>\$15,006</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)**

	13 Weeks Ended April 29, 2006	13 Weeks Ended April 30, 2005
<b>Cash flows from continuing operating activities:</b>		
Net income (loss).....	\$ (52)	\$ 123
Adjustments to reconcile net income (loss) to net cash provided (used) by continuing operating activities:		
Income from discontinued operations.....	(22)	-
Stock-based compensation expense.....	26	3
May integration costs.....	129	-
Depreciation and amortization.....	316	177
Amortization of financing costs and premium on acquired debt.....	(12)	1
Changes in assets and liabilities:		
Decrease in proprietary and other accounts receivable not separately identified.....	222	121
(Increase) decrease in merchandise inventories.....	27	(294)
Increase in supplies and prepaid expenses.....	(65)	(21)
Decrease in other assets not separately identified.....	8	7
Increase (decrease) in accounts payable and accrued liabilities not separately identified.....	(312)	89
Decrease (increase) in deferred income taxes.....	(43)	(96)

Increase in other liabilities not separately identified.....	42	3
Net cash provided (used) by continuing operating activities...	<u>(114)</u>	<u>56</u>
Cash flows from continuing investing activities:		
Purchase of property and equipment.....	(86)	(36)
Capitalized software.....	(17)	(16)
Increase in non-proprietary accounts receivable.....	-	(16)
Disposition of property and equipment.....	19	7
Net cash used by continuing investing activities.....	<u>(84)</u>	<u>(61)</u>
Cash flows from continuing financing activities:		
Debt issued.....	124	-
Debt repaid.....	(110)	(18)
Dividends paid.....	(69)	(23)
Increase (decrease) in outstanding checks.....	71	(8)
Acquisition of treasury stock.....	-	(1)
Issuance of common stock.....	162	105
Net cash provided by continuing financing activities.....	<u>178</u>	<u>55</u>
Net cash provided (used) by continuing operations.....	(20)	50
Net cash provided by discontinued operating activities.....	34	-
Net cash used by discontinued investing activities.....	(33)	-
Net cash provided by discontinued financing activities.....	12	-
Net cash provided by discontinued operations.....	13	-
Net (increase) decrease in cash and cash equivalents.....	(7)	50
Cash and cash equivalents at beginning of period.....	<u>248</u>	<u>868</u>
Cash and cash equivalents at end of period.....	<u>\$ 241</u>	<u>\$ 918</u>
Supplemental cash flow information:		
Interest paid.....	\$ 149	\$ 83
Interest received.....	3	5
Income taxes paid (net of refunds received).....	361	208

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

Federated Department Stores, Inc. and subsidiaries (the "Company") is a retail organization operating retail 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.

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 28, 2006 (the "2005 10-K"). The accompanying Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and notes thereto in the 2005 10-K.

Because of the seasonal nature of the retail business, the results of operations for the 13 weeks ended April 29, 2006 and April 30, 2005 (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 weeks ended April 29, 2006 and April 30, 2005, 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.

On May 19, 2006, the Company's board of directors approved a two-for-one stock split to be effected in the form of a stock dividend. The additional shares resulting from the stock split will be distributed after the close of trading on June 9, 2006 to shareholders of record on May 26, 2006. Share and per share amounts reflected throughout the consolidated financial statements and notes thereto have been retroactively restated for the stock split.

Certain reclassifications were made to prior year's amounts to conform with the classifications of such amounts for the most recent year.

Net sales include merchandise sales, leased department income and shipping and handling fees. Cost of sales consists of the cost of merchandise, including inbound freight, and shipping and handling costs.

Effective January 29, 2006, the Company, adopted Statement of Financial Accounting Standards ("SFAS") No. 151, "Inventory Costs - An Amendment of ARB No. 43, Chapter 4." This statement amends the guidance in ARB No. 43, Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). The adoption of this statement did not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

Effective January 29, 2006, the Company adopted SFAS No. 123R, "Share Based Payment" ("SFAS 123R"), and the Company's consolidated financial statements as of and for the 13 weeks ended April 29, 2006 reflect the impact of SFAS 123R. For the 13 weeks ended April 29, 2006 and April 30, 2005, the Company recorded in selling, general and administrative expenses stock-based compensation expense of \$26 million and \$3 million, respectively. The \$26 million of stock-based compensation for the 13 weeks ended April 29, 2006 included approximately \$12 million for stock options, approximately \$13 million for the stock credit plan and approximately \$1 million for restricted stock. The \$3 million of stock-based compensation for the 13 weeks ended April 30, 2005 included approximately \$2 million for the stock credit plan and approximately \$1 million for restricted stock. See Note 8 "Equity Plans" for further information.

## 2. Acquisition

On August 30, 2005, the Company completed the acquisition of The May Department Stores Company ("May"). The results of May's operations have been included in the consolidated financial statements since that date. The acquired May operations include approximately 500 department stores and approximately 700 bridal and formalwear stores nationwide. As a result of the acquisition and the integration of the acquired May operations, the Company's continuing operations operate over 850 stores in 45 states, the District of Columbia, Guam and Puerto Rico. Most of the acquired May department stores will be converted to the Macy's nameplate in September 2006, resulting in a national retailer with stores in almost all major markets. The Company expects to realize cost synergies resulting from the consolidation of central functions, division integrations and the adoption of best practices across the combined company.

The Company has previously announced its intention to divest approximately 80 of the combined Company's stores (including approximately 40 acquired May locations) and certain duplicate facilities, including distribution centers, call centers and corporate offices. The 80 stores accounted for approximately \$2.2 billion of 2005 sales on a pro forma basis. As of June 7, 2006, the Company had sold or entered into agreements for the sale of 56 of these stores.

On September 20, 2005 and January 12, 2006, the Company announced its intention to dispose of the acquired May bridal group business, which includes the operations of David's Bridal, After Hours Formalwear and Priscilla of Boston, and the acquired Lord & Taylor division of May, respectively. Accordingly, the operations of these acquired businesses are presented as discontinued operations (see Note 4 "Discontinued Operations"). Pursuant to the Purchase, Sale and Servicing Transfer Agreement with Citibank, N.A., the acquired May credit card accounts and related receivables will be sold to Citigroup prior to August 30, 2006 (see Note 9 "Subsequent Events").

The aggregate purchase price for the merger with May (the "Merger") was approximately \$11.7 billion, including approximately \$5.7 billion of cash and approximately 200 million shares of Company common stock and options to purchase an additional 18.8 million shares of Company common stock valued at approximately \$6.0 billion in the aggregate. The value of the approximately 200 million shares of Company common stock was determined based on the average market price of the Company's stock from February 24, 2005 to March 2, 2005 (the merger agreement was entered into on February 27, 2005). In connection with the Merger, the Company also assumed approximately \$6.0 billion of May debt.

The May purchase price has been allocated to the assets acquired and liabilities assumed based on their fair values, and is subject to the final fair value determination of certain assets and liabilities. The following table summarizes the preliminary purchase price allocation at the date of acquisition:

	(millions)
Current assets, excluding assets of discontinued operations.....	\$ 5,163
Assets of discontinued operations.....	1,989
Property and equipment.....	6,544
Goodwill.....	9,109
Intangible assets.....	735
Other assets.....	<u>32</u>
Total assets acquired.....	23,572
Current liabilities, excluding short-term debt	

and liabilities of discontinued operations.....	(3,013)
Liabilities of discontinued operations.....	(568)
Short-term debt.....	(248)
Long-term debt.....	(6,255)
Other liabilities.....	(1,739)
Total liabilities assumed.....	(11,823)
Total purchase price.....	<u>\$11,749</u>

The following pro forma information presents the Company's net sales, income from continuing operations, net income and diluted earnings per share as if the May acquisition had occurred on January 30, 2005:

	13 Weeks Ended April 30, <u>2005</u> (millions, except per share data)
Net sales.....	\$ 6,470
Income from continuing operations.....	101
Net income.....	109
Diluted earnings per share:	
Income from continuing operations.....	\$ .18
Income from discontinued operations.....	<u>.02</u>
Net income.....	<u>\$ .20</u>

Pro forma adjustments have been made to reflect depreciation and amortization using estimated asset values recognized after applying purchase accounting adjustments and interest expense on borrowings used to finance the acquisition.

This pro forma information is presented for informational purposes only and is not necessarily indicative of actual results had the acquisition been effected at the beginning of the respective periods presented, is not necessarily indicative of future results, and does not reflect potential synergies, integration costs, or other such costs or savings.

### 3. May Integration Costs

May integration costs represent the costs associated with the integration of the acquired May businesses with the Company's pre-existing businesses and the consolidation of certain operations of the Company. The Company has announced that it plans to divest approximately 80 locations (including approximately 40 Macy's stores) as a result of the acquisition of May.

During the 13 weeks ended April 29, 2006, \$483 million of property and equipment for approximately 60 May and Macy locations was transferred to assets held for sale upon store closure. Assets held for sale are included in other assets on the consolidated balance sheet.

During the 13 weeks ended April 29, 2006, the Company recorded \$129 million of integration costs associated with the acquisition of May, including \$6 million of inventory valuation adjustments associated with the combination and integration of the Company's and May's merchandise assortments. \$11 million of these costs relate to impairment charges of certain Macy's locations planned to be disposed of. The fair values of the locations planned to be disposed of were determined based on prices of similar assets. The Company is continuing to study its store portfolio in light of the acquisition of May and some plans may change as conversion dates approach. The remaining \$112 million of May integration costs incurred during the 13 weeks ended April 29, 2006 included store closing-related costs, severance, retention and other human resource-related costs, EDP system integration costs and other costs.

The following table shows the beginning and ending balance of, and the activity associated with, the severance accrual established in connection with the allocation of the May purchase price for the 13 weeks ended April 29, 2006:

	January 28, <u>2006</u>	<b>Additional Amount Charged to Goodwill</b>	<b>Payments</b>	April 29, <u>2006</u>
Severance costs.....	\$ 289	\$ 7	\$ (121)	\$ 175

### 4. Discontinued Operations

On September 20, 2005 and January 12, 2006, the Company announced its intention to dispose of the acquired May bridal group business, which includes the operations of David's Bridal, After Hours Formalwear and Priscilla of Boston, and the acquired Lord & Taylor division of May, respectively. Accordingly, for financial statement purposes, the assets, liabilities, results of operations

and cash flows of these businesses have been segregated from those of continuing operations for all periods presented.

Discontinued operations include sales of approximately \$564 million for the 13 weeks ended April 29, 2006. No consolidated interest expense has been allocated to discontinued operations. For the 13 weeks ended April 29, 2006, income from discontinued operations totaled \$35 million before income taxes, with related income tax expense of \$13 million.

The assets and liabilities of discontinued operations are as follows:

	April 29, <u>2006</u> (millions)
Accounts receivable.....	\$172
Merchandise inventories.....	396
Property and Equipment - net.....	727
Goodwill and other intangible assets - net.....	684
Other assets.....	<u>66</u>
	<u>\$2,045</u>
Accounts payable and accrued liabilities.....	\$349
Income taxes.....	259
Other liabilities.....	<u>16</u>
	<u>\$ 624</u>

## 5. Earnings (Loss) Per Share

The following table sets forth the computation of basic and diluted earnings (loss) per share based on income (loss) from continuing operations:

	13 Weeks Ended			
	April 29, 2006		April 30, 2005	
	<u>Loss</u>	<u>Shares</u>	<u>Income</u>	<u>Shares</u>
	(millions, except per share figures)			
Income (loss) from continuing operations and average number of shares outstanding.....	\$ (74)	549.2	\$ 123	336.6
Shares to be issued under deferred compensation plans.....	<u>-</u>	<u>1.0</u>	<u>-</u>	<u>1.0</u>
	\$ (74)	550.2	\$ 123	337.6
Basic earnings (loss) per share.....	<u>\$(.13)</u>		<u>\$ .36</u>	
Effect of dilutive securities - stock options.....	<u>-</u>	<u>-</u>	<u>-</u>	<u>8.0</u>
	\$ (74)	550.2	\$ 123	345.6
Diluted earnings (loss) per share...	<u>\$(.13)</u>		<u>\$ .36</u>	

For the 13 weeks ended April 29, 2006, stock options to purchase 46.4 million shares of common stock at prices ranging from \$12.79 to \$40.26 per share were outstanding at April 29, 2006, but were not included in the computation of diluted earnings per share because, as a result of the Company's loss from continuing operations during this period, their inclusion would have been antidilutive.

In addition to the stock options reflected in the foregoing table, stock options to purchase 5.0 million shares of common stock at prices ranging from \$30.53 to \$39.72 per share were outstanding at April 30, 2005 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.

## 6. Benefit Plans

The Company has defined benefit plans ("Pension Plans") and defined contribution plans which cover substantially all employees who work 1,000 hours or more in a year. The Company also has defined benefit supplementary retirement plans which include 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 are as follows:

	<b>13 Weeks Ended</b>	
	April 29, <u>2006</u>	April 30, <u>2005</u>
	(millions)	
<b>Pension Plans</b>		
Service cost.....	\$ 31	\$ 12
Interest cost.....	39	24
Expected return on assets.....	(50)	(36)
Recognition of net actuarial loss.....	<u>13</u>	<u>11</u>
	<u>\$ 33</u>	<u>\$ 11</u>
<b>Supplementary Retirement Plans</b>		
Service cost.....	\$ 3	\$ 2
Interest cost.....	10	4
Recognition of net actuarial loss.....	<u>3</u>	<u>3</u>
	<u>\$ 16</u>	<u>\$ 9</u>
<b>Postretirement Obligations</b>		
Service cost.....	\$ -	\$ -
Interest cost.....	5	4
Amortization of prior service cost.....	(1)	(1)
Recognition of net actuarial loss.....	<u>1</u>	<u>1</u>
	<u>\$ 5</u>	<u>\$ 4</u>

## 7. Condensed Consolidating Financial Information

Federated Department Stores, Inc. ("Parent") has fully and unconditionally guaranteed certain long-term debt obligations of its wholly-owned subsidiary, Federated Retail Holdings, Inc. ("Subsidiary Issuer"). "Other Subsidiaries" includes all other direct subsidiaries of Parent, including FDS Bank, FDS Insurance, Leadville Insurance Company, Snowdin Insurance Company, Priscilla of Boston, and David's Bridal, Inc. and its subsidiaries, including After Hours Formalwear, Inc. "Subsidiary Issuer" includes operating divisions and non-guarantor subsidiaries of the Subsidiary Issuer on an equity basis. The assets and liabilities and results of operations of the non-guarantor subsidiaries of the Subsidiary Issuer are also reflected in "Other Subsidiaries."

Condensed consolidating balance sheets as of April 29, 2006, April 30, 2005 and January 28, 2006, the related condensed consolidating statements of income for the 13 weeks ended April 29, 2006 and April 30, 2005, and the related condensed consolidating statements of cash flows for the 13 weeks ended April 29, 2006 and April 30, 2005 are presented below.

### Condensed Consolidating Balance Sheet

As of April 29, 2006

(millions)

	<u>Parent</u>	<u>Subsidiary Issuer</u>	<u>Other Subsidiaries</u>	<u>Consolidating Adjustments</u>	<u>Consolidated</u>
<b>ASSETS:</b>					
<b>Current Assets:</b>					
Cash and cash equivalents.....	\$ 10	\$ 78	\$ 172	\$ (19)	\$ 241
Accounts receivable.....	-	86	2,386	(172)	2,300
Merchandise inventories.....	-	3,031	2,797	(396)	5,432
Supplies and prepaid expenses.....	-	148	158	(39)	267
Deferred income tax assets.....	3	-	-	(3)	-
Income tax receivable.....	329	-	-	(112)	217
Assets of discontinued operations....	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,045</u>	<u>2,045</u>
Total Current Assets.....	342	3,343	5,513	1,304	10,502
Property and Equipment - net.....	2	6,545	5,490	(727)	11,310
Goodwill.....	-	5,636	4,259	(527)	9,368
Other Intangible Assets - net.....	-	390	826	(157)	1,059
Other Assets.....	4	444	449	(9)	888
Deferred Income Tax Assets.....	4	-	-	(4)	-
Intercompany Receivable.....	1,780	-	1,972	(3,752)	-
Investment in Subsidiaries.....	<u>11,618</u>	<u>8,405</u>	<u>-</u>	<u>(20,023)</u>	<u>-</u>
Total Assets.....	<u>\$13,750</u>	<u>\$24,763</u>	<u>\$18,509</u>	<u>\$(23,895)</u>	<u>\$ 33,127</u>



**LIABILITIES AND SHAREHOLDERS'**
**EQUITY:**
**Current Liabilities:**

Short-term debt.....	\$ -	\$ 1,342	\$ 5	\$ (1)	\$ 1,346
Accounts payable and accrued liabilities.....	211	2,558	2,734	(349)	5,154
Income taxes.....	21	154	137	(112)	200
Deferred income taxes.....	-	129	192	(96)	225
Liabilities of discontinued operations	<u>-</u>	<u>-</u>	<u>-</u>	<u>624</u>	<u>624</u>
Total Current Liabilities.....	232	4,183	3,068	66	7,549
Long-Term Debt.....	-	8,759	80	(2)	8,837
Intercompany Payable.....	-	3,752	-	(3,752)	-
Deferred Income Taxes.....	-	543	1,307	(171)	1,679
Other Liabilities.....	6	890	667	(13)	1,550
Minority Interest *.....	-	-	523	(523)	-
Shareholders' Equity.....	<u>13,512</u>	<u>6,636</u>	<u>12,864</u>	<u>(19,500)</u>	<u>13,512</u>
Total Liabilities and Shareholders' Equity.....	<u>\$13,750</u>	<u>\$24,763</u>	<u>\$18,509</u>	<u>\$ (23,895)</u>	<u>\$ 33,127</u>

\* Parent's minority interest in a subsidiary which is wholly-owned on a consolidated basis.

**Condensed Consolidating Statement of Income**
**For the 13 Weeks Ended April 29, 2006**
**(millions)**

	<b>Parent</b>	<b>Subsidiary Issuer</b>	<b>Other Subsidiaries</b>	<b>Consolidating Adjustments</b>	<b>Consolidated</b>
Net Sales.....	\$ -	\$ 3,261	\$ 3,713	\$ (1,044)	\$ 5,930
Cost of sales.....	-	(2,070)	(2,316)	759	(3,627)
Inventory valuation adjustments - May integration	<u>-</u>	<u>(6)</u>	<u>-</u>	<u>-</u>	<u>(6)</u>
Gross margin.....	-	1,185	1,397	(285)	2,297
Selling, general and administrative expenses.....	(3)	(1,320)	(1,080)	249	(2,154)
May integration costs.....	<u>-</u>	<u>(58)</u>	<u>(65)</u>	<u>-</u>	<u>(123)</u>
Operating income (loss).....	(3)	(193)	252	(36)	20
Interest (expense) income, net:					
External.....	2	(140)	(1)	1	(138)
Intercompany.....	16	(55)	39	-	-
Equity in earnings of subsidiaries.....	<u>(49)</u>	<u>83</u>	<u>-</u>	<u>(34)</u>	<u>-</u>
Income (loss) from continuing operations before income taxes.....	(34)	(305)	290	(69)	(118)
Federal, state and local income taxes.....	<u>(18)</u>	<u>144</u>	<u>(95)</u>	<u>13</u>	<u>44</u>
Income (loss) from continuing operations .....	(52)	(161)	195	(56)	(74)
Discontinued operations, net of income taxes.....	<u>-</u>	<u>-</u>	<u>-</u>	<u>22</u>	<u>22</u>
Net income (loss).....	<u>\$ (52)</u>	<u>\$ (161)</u>	<u>\$ 195</u>	<u>\$ (34)</u>	<u>\$ (52)</u>

**Condensed Consolidating Statement of Cash Flows**

**For the 13 Weeks Ended April 29, 2006**

(millions)

	Parent	Subsidiary Issuer	Other Subsidiaries	Consolidating Adjustments	Consolidated
<b>Cash flows from continuing operating activities:</b>					
Net income (loss).....	\$ (52)	\$ (161)	\$ 195	\$ (34)	\$ (52)
Income from discontinued operations.....	-	-	-	(22)	(22)
May integrations costs.....	-	64	65	-	129
Equity in earnings of subsidiaries.....	49	(83)	-	34	-
Dividends received from subsidiaries.....	97	-	-	(97)	-
Depreciation and amortization.....	-	152	152	-	304
Stock-based compensation expense.....	-	14	12	-	26
(Increase) decrease in working capital.....	(233)	(331)	(23)	(12)	(599)
Other, net.....	<u>(50)</u>	<u>321</u>	<u>(171)</u>	<u>-</u>	<u>100</u>
Net cash provided (used) by continuing operating activities.....	<u>(189)</u>	<u>(24)</u>	<u>230</u>	<u>(131)</u>	<u>(114)</u>
<b>Cash flows from continuing investing activities:</b>					
Purchase of property and equipment and capitalized software, net.....	<u>-</u>	<u>(13)</u>	<u>(104)</u>	<u>33</u>	<u>(84)</u>
Net cash used by continuing investing activities.....	<u>-</u>	<u>(13)</u>	<u>(104)</u>	<u>33</u>	<u>(84)</u>
<b>Cash flows from continuing financing activities:</b>					
Debt issued, net of repayments.....	-	14	-	-	14
Dividends paid.....	(69)	-	(97)	97	(69)
Issuance of common stock, net.....	162	-	-	-	162
Intercompany activity, net.....	37	70	(220)	113	-
Other, net.....	<u>52</u>	<u>(2)</u>	<u>21</u>	<u>-</u>	<u>71</u>
Net cash provided (used) by continuing financing activities.....	<u>182</u>	<u>82</u>	<u>(296)</u>	<u>210</u>	<u>178</u>
Net cash provided (used) by continuing operations.....	(7)	45	(170)	112	(20)
Net cash provided by discontinued operations	<u>-</u>	<u>-</u>	<u>-</u>	<u>13</u>	<u>13</u>
Net increase (decrease) in cash and cash equivalents .....	(7)	45	(170)	125	(7)
Cash and cash equivalents at beginning of period.....	<u>17</u>	<u>33</u>	<u>342</u>	<u>(144)</u>	<u>248</u>
Cash and cash equivalents at end of period.....	<u>\$ 10</u>	<u>\$ 78</u>	<u>\$ 172</u>	<u>\$ (19)</u>	<u>\$ 241</u>

**Condensed Consolidating Balance Sheet**

**As of April 30, 2005**

(millions)

	Parent	Other Subsidiaries	Consolidating Adjustments	Consolidated
<b>ASSETS:</b>				
<b>Current Assets:</b>				
Cash and cash equivalents.....	\$ 712	\$ 206	\$ -	\$ 918
Accounts receivable.....	1	3,313	-	3,313

Merchandise inventories.....	-	3,713	-	3,713
Supplies and prepaid expenses.....	-	125	-	125
Income taxes.....	<u>18</u>	<u>-</u>	<u>(18)</u>	<u>-</u>
Total Current Assets.....	731	7,056	(18)	7,769
Property and Equipment - net.....	2	5,886	-	5,888
Goodwill.....	-	260	-	260
Other Intangible Assets - net.....	-	378	-	378
Other Assets.....	23	688	-	711
Deferred Income Tax Assets.....	85	-	(85)	-
Intercompany Receivable.....	2,868	-	(2,868)	-
Investment in Subsidiaries.....	<u>5,375</u>	<u>-</u>	<u>(5,375)</u>	<u>-</u>
Total Assets.....	<u>\$ 9,084</u>	<u>\$14,268</u>	<u>\$(8,346)</u>	<u>\$ 15,006</u>

LIABILITIES AND SHAREHOLDERS' EQUITY:

Current Liabilities:

Short-term debt.....	\$ 2	\$ 1,224	\$ -	\$ 1,226
Accounts payable and accrued liabilities.....	118	2,671	-	2,789
Income taxes.....	-	245	(18)	227
Deferred income taxes.....	<u>-</u>	<u>63</u>	<u>-</u>	<u>63</u>
Total Current Liabilities.....	120	4,203	(18)	4,305
Long-Term Debt.....	2,591	44	-	2,635
Intercompany Payable.....	-	2,868	(2,868)	-
Deferred Income Taxes.....	-	1,193	(85)	1,108
Other Liabilities.....	1	585	-	586
Shareholders' Equity.....	<u>6,372</u>	<u>5,375</u>	<u>(5,375)</u>	<u>6,372</u>
Total Liabilities and Shareholders' Equity.....	<u>\$ 9,084</u>	<u>\$14,268</u>	<u>\$(8,346)</u>	<u>\$15,006</u>

Condensed Consolidating Statement of Income

For the 13 Weeks Ended April 30, 2005

(millions)

	Parent	Other Subsidiaries	Consolidating Adjustments	Consolidated
Net Sales.....	\$ -	\$ 3,641	\$ -	\$ 3,641
Cost of sales.....	<u>-</u>	<u>(2,176)</u>	<u>-</u>	<u>(2,176)</u>
Gross margin.....	-	1,465	-	1,465
Selling, general and administrative expenses.....	<u>(3)</u>	<u>(1,210)</u>	<u>-</u>	<u>(1,213)</u>
Operating income (loss).....	(3)	255	-	252
Interest (expense) income, net:				
External.....	(40)	(14)	-	(54)
Intercompany.....	59	(59)	-	-
Equity in earnings of subsidiaries.....	<u>113</u>	<u>-</u>	<u>(113)</u>	<u>-</u>
Income before income taxes.....	129	182	(113)	198
Federal, state and local income tax expense.....	<u>(6)</u>	<u>(69)</u>	<u>-</u>	<u>(75)</u>
Net income.....	<u>\$ 123</u>	<u>\$ 113</u>	<u>\$ (113)</u>	<u>\$ 123</u>

Condensed Consolidating Statement of Cash Flows

**For the 13 Weeks Ended April 30, 2005**

(millions)

	Parent	Other Subsidiaries	Consolidating Adjustments	Consolidated
Cash flows from operating activities:				
Net income.....	\$ 123	\$ 113	\$ (113)	\$ 123
Equity in earnings of subsidiaries.....	(113)	-	113	-
Dividends .....	20	-	(20)	-
Depreciation and amortization.....	-	178	-	178
Stock-based compensation expense.....	-	3	-	3
(Increase) decrease in working capital.....	55	(259)	2	(202)
Other, net .....	<u>(2)</u>	<u>(44)</u>	<u>-</u>	<u>(46)</u>
Net cash provided (used) by operating activities...	<u>83</u>	<u>(9)</u>	<u>(18)</u>	<u>56</u>
Cash flows from investing activities:				
Purchase of property and equipment and capitalized software, net.....	-	(45)	-	(45)
Other, net.....	<u>-</u>	<u>(16)</u>	<u>-</u>	<u>(16)</u>
Net cash used by investing activities.....	<u>-</u>	<u>(61)</u>	<u>-</u>	<u>(61)</u>
Cash flows from financing activities:				
Debt issued, net of repayments.....	(1)	(17)	-	(18)
Dividends paid.....	(23)	(20)	20	(23)
Issuance of common stock, net.....	104	-	-	104
Intercompany activity, net.....	(123)	123	-	-
Other, net.....	<u>(14)</u>	<u>6</u>	<u>-</u>	<u>(8)</u>
Net cash provided (used) by financing activities.....	<u>(57)</u>	<u>92</u>	<u>20</u>	<u>55</u>
Net increase in cash and cash equivalents.....	26	22	2	50
Cash and cash equivalents at beginning of period.....	686	<u>184</u>	<u>(2)</u>	<u>868</u>
Cash and cash equivalents at end of period.....	\$ 712	\$ <u>206</u>	\$ <u>-</u>	\$ <u>918</u>

**Condensed Consolidating Balance Sheet**

**As of January 28, 2006**

(millions)

	Parent	Subsidiary Issuer	Other Subsidiaries	Consolidating Adjustments	Consolidated
<b>ASSETS:</b>					
Current Assets:					
Cash and cash equivalents.....	\$ 17	\$ 33	\$ 342	\$ (144)	\$ 248
Accounts receivable.....	-	94	2,584	(156)	2,522
Merchandise inventories.....	-	3,049	2,829	(419)	5,459
Supplies and prepaid expenses....	-	105	133	(35)	203
Income taxes.....	99	-	-	(99)	-
Deferred income tax assets.....	3	46	-	(49)	-
Assets of discontinued operations	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,713</u>	<u>1,713</u>
Total Current Assets.....	119	3,327	5,888	811	10,145
Property and Equipment - net.....	2	6,979	5,680	(627)	12,034
Goodwill.....	-	5,565	4,244	(289)	9,520
Other Intangible Assets - net.....	-	527	710	(157)	1,080
Other Assets.....	4	129	282	(26)	389
Intercompany Receivable.....	1,805	-	4,755	(6,560)	-
Investment in Subsidiaries.....	<u>11,754</u>	<u>11,177</u>	<u>-</u>	<u>(22,931)</u>	<u>-</u>
Total Assets.....	<u>\$13,684</u>	<u>\$27,704</u>	<u>\$21,559</u>	<u>\$(29,779)</u>	<u>\$33,168</u>

LIABILITIES AND SHAREHOLDERS' EQUITY:

Current Liabilities:					
Short-term debt.....	\$ -	\$ 1,319	\$ 5	(1)	\$ 1,323
Accounts payable and accrued liabilities.....	114	2,804	2,785	(457)	5,246
Income taxes.....	-	170	383	(99)	454
Deferred income taxes.....	-	-	225	(122)	103
Liabilities of discontinued operations.....	-	-	-	464	464
Total Current Liabilities.....	114	4,293	3,398	(215)	7,590
Long-Term Debt.....	-	8,781	81	(2)	8,860
Intercompany Payable.....	-	6,560	-	(6,560)	-
Deferred Income Taxes.....	45	415	1,302	(58)	1,704
Other Liabilities.....	6	867	635	(13)	1,495
Minority Interest *.....	-	-	518	(518)	-
Shareholders' Equity.....	13,519	6,788	15,625	(22,413)	13,519
Total Liabilities and Shareholders' Equity.....	\$13,684	\$27,704	\$21,559	\$(29,779)	\$33,168

\* Parent's minority interest in a subsidiary which is wholly-owned on a consolidated basis.

## 8. Equity Plans

The Company has two equity plans (Federated and May) intended to provide an equity interest in the Company to key management personnel and thereby provide additional incentives for such persons to devote themselves to the maximum extent practicable to the businesses of the Company and its subsidiaries. The equity plans are administered by the Compensation and Management Development Committee of the Board of Directors (the "Compensation Committee"). The Compensation Committee is authorized to grant options, stock appreciation rights, restricted stock and restricted stock units to officers and key employees of the Company and its subsidiaries and to non-employee directors. Stock option grants have an exercise price at least equal to the market value of the underlying common stock on the date of grant, have ten-year terms and typically vest ratably over four years of continued employment.

The Company also has a stock credit plan. Beginning in 2004, key management personnel became eligible to earn a stock credit grant over a two-year performance period ended January 28, 2006. In general, each stock credit is intended to represent the right to receive the value associated with one share of the Company's common stock. The value of one-half of the stock credits awarded to participants in 2004 will be paid in cash in early 2008 and the value of the other half of such stock credits will be paid in cash in early 2009. Additionally, in 2006, key management personnel became eligible to earn a stock credit grant over a two-year performance period ending February 2, 2008. In general, the value of one-half of the stock credits awarded to participants in 2006 will be paid in cash in early 2010 and the value of the other half of such stock credits will be paid in cash in early 2011.

Prior to January 29, 2006, the Company accounted for its stock-based employee compensation plans in accordance with Accounting Principles Board ("APB") Opinion No. 25 and related interpretations. No stock-based employee compensation cost related to stock options had been reflected in net income, as all options granted under the plans had an exercise price at least equal to the market value of the underlying common stock on the date of grant.

Effective January 29, 2006, the Company adopted the fair value recognition provisions of SFAS 123R, using the modified prospective transition method. Under this transition method, compensation expense that the Company recognizes beginning on that date includes expense associated with the fair value of all awards granted on and after January 29, 2006, and expense for the unvested portion of previously granted awards outstanding on January 29, 2006. Results for prior periods have not been restated.

The fair value of each stock option grant is estimated on the date of grant using the Black-Scholes option-pricing model. The Company estimates the expected volatility and expected option life assumption consistent with SFAS 123R and Securities and Exchange Commission Staff Accounting Bulletin No. 107. The expected volatility of the Company's common stock at the date of grant is estimated based on a historic volatility rate and the expected option life is calculated based on historical stock option experience as the best estimate of future exercise patterns. The dividend yield assumption is based on historical and anticipated dividend payouts. The risk-free interest rate assumption is based on observed interest rates consistent with the expected life of each stock option grant. The Company uses historical data to estimate pre-vesting option forfeitures and records stock-based compensation expense only for those awards that are expected to vest. For options granted, the Company recognizes the fair value on a straight-line basis primarily over the vesting period of the options.

The fair value of stock-based awards granted during the 13 weeks ended April 29, 2006 and April 30, 2005 and the weighted average assumptions used to estimate the fair value of stock options are as follows:

	13 Weeks Ended	
	April 29, <u>2006</u>	April 30, <u>2005</u>
Weighted average fair value of stock options granted during the period.....	\$13.58	\$10.50
Weighted average fair value of restricted stock granted during the period.....	\$35.82	na
Dividend yield.....	1.5%	1.8%
Expected volatility.....	39.8%	37.5%
Risk-free interest rate.....	4.6%	4.3%
Expected life.....	5.3 years	5.3 years

During the 13 weeks ended April 29, 2006, the Company recorded approximately \$12 million of stock-based compensation expense for stock options, approximately \$13 million of stock-based compensation expense for the stock credit plan and approximately \$1 million of stock based compensation expense for restricted stock in selling, general and administrative expenses. During the 13 weeks ended April 30, 2005, the Company recorded approximately \$2 million of stock-based compensation expense for the stock credit plan and approximately \$1 million of stock based compensation expense for restricted stock in selling, general and administrative expenses. The income tax benefit recognized in the Consolidated Statements of Operations related to stock-based compensation was approximately \$10 million and approximately \$1 million for the 13 weeks ended April 29, 2006 and April 30, 2005, respectively.

The following table illustrates the pro forma effect on net income and earnings per share for the 13 weeks ended April 30, 2005 as if the Company had applied the fair value recognition provisions of SFAS 123R for stock options granted.

	(millions, except per share data)
Net income, as reported.....	\$123
Add stock-based employee compensation cost included in reported net income, net of related tax benefit.....	2
Deduct stock-based employee compensation cost determined under the fair value method for all awards, net of related tax benefit.....	<u>(12)</u>
Pro forma net income.....	<u>\$113</u>
Earnings per share - net income:	
Basic - as reported.....	<u>\$.36</u>
Basic - pro forma.....	<u>\$.33</u>
Diluted - as reported.....	<u>\$.36</u>
Diluted - pro forma.....	<u>\$.33</u>

Stock option activity of the Federated equity plan for the 13 weeks ended April 29, 2006 is as follows:

	Shares (thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value (millions)
Outstanding, beginning of period....	32,543.0	\$21.91		
Granted.....	3,942.4	36.26		
Canceled.....	(84.3)	23.95		
Exercised.....	<u>(3,480.6)</u>	<u>20.21</u>		\$ 65
Outstanding, end of period.....	<u>32,920.5</u>	<u>\$23.81</u>		
Exercisable, end of period.....	<u>21,492.8</u>	<u>\$21.25</u>	5.0	\$380
Options expected to vest.....	<u>9,687.0</u>	<u>\$28.57</u>	8.7	\$100

As of April 29, 2006, the Company had \$94 million of unrecognized compensation costs related to non-vested stock options which is expected to be recognized over a weighted average period of 2.2 years.

As of April 29, 2006, 16.8 million shares of Common Stock were available for additional grants pursuant to the Company's equity plan, of which 1.8 million shares were available for grant in the form of restricted stock or restricted stock units, reflecting the shareholders' approval to increase the number of shares available for issuance on May 19, 2006. Common

Stock is issued out of treasury stock upon the exercise of stock options and grant of restricted stock. During the 13 weeks ended April 29, 2006, 94,000 shares of Common Stock were granted in the form of restricted stock at a market value of \$35.82 fully vesting after three years. No shares of Common Stock were granted in the form of restricted stock during the 13 weeks ended April 30, 2005. Compensation expense is recorded for all restricted stock grants based on the amortization of the fair market value at the time of grant of the restricted stock over the period the restrictions lapse. There have been no grants of restricted stock units or stock appreciation rights under the equity plan.

Restricted stock award activity for the 13 weeks ended April 29, 2006 is as follows:

	<u>Shares</u>	<u>Weighted Average Grant Date Fair Value</u>
Unvested, beginning of period.....	101,500	\$ 12.97
Granted.....	94,000	35.83
Vested.....	<u>(500)</u>	<u>25.25</u>
Unvested, end of period.....	<u>195,000</u>	<u>\$ 23.96</u>

As of April 29, 2006, there was \$3.5 million of unrecognized compensation cost related to unvested restricted stock awards which is expected to be recognized over a weighted average period of 2.0 years. The total fair value of restricted stock awards vested during the 13 weeks ended April 29, 2006 and April 30, 2005 was immaterial.

The Company has assumed May's equity plan which is intended to provide an equity interest to key management personnel and thereby provide additional incentives for such persons to devote themselves to the maximum extent practicable to the businesses of the Company and its subsidiaries. Option grants have an exercise price at least equal to the market value of the underlying common stock on the date of grant, have ten year terms and typically vest ratably over four years of continued employment.

As of April 29, 2006, 12.1 million shares of Common Stock were available for additional grants pursuant to the May equity plan, of which 2.2 million shares were available for grant in the form of restricted stock or restricted stock units. New Common Stock is issued upon the exercise of stock options and grant of restricted stock. Compensation expense is recorded for all restricted stock grants based on the amortization of the fair market value at the time of grant of the restricted stock over the period the restrictions lapse. There have been no grants of restricted stock units or stock appreciation rights under the May equity plan.

As of the date of the Merger, all outstanding May options were fully vested and were converted into options to acquire Common Stock in accordance with the Merger agreement. Stock option activity of the May equity plan for the 13 weeks ended April 29, 2006 is as follows:

	<u>Shares</u> (thousands)	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Life (years)</u>	<u>Aggregate Intrinsic Value</u> (millions)
Outstanding, beginning of period...	15,821.6	\$32.91		
Granted.....	-	-		
Canceled.....	(323.5)	37.59		
Exercised.....	<u>(2,189.0)</u>	<u>29.01</u>		\$22
Outstanding, end of period.....	<u>13,309.1</u>	<u>\$33.43</u>		
Exercisable, end of period.....	<u>13,309.1</u>	<u>\$33.43</u>	5.3	\$73

For the 13 weeks ended April 29, 2006, cash received from stock option exercises under the Company's equity plans amounted to \$134 million and the tax benefits from exercised stock options and vested restricted stock amounted to \$28 million.

## 9. Subsequent Events

On May 1, 2006, the Company terminated the Company's credit card program agreement with GE Capital Consumer Card Co. ("GE Bank") and purchased all of the "Macy's" credit card accounts owned by GE Bank, together with related receivables balances (the "GE/Macy's Credit Assets") as of April 30, 2006. Also on May 1, 2006, the Company completed a second transaction under its previously announced agreement to sell its and May's credit card accounts and related receivables to Citigroup. The Company sold the GE/Macy's Credit Assets previously owned by GE Bank, resulting in a pre-tax gain of

approximately \$179 million. The net proceeds of approximately \$180 million were used to repay short-term borrowings associated with the acquisition of May.

On May 24, 2006, the Company received a refund of \$155 million from the Internal Revenue Service ("IRS") as a result of settling an IRS examination for fiscal years 2000, 2001, and 2002. The refund is primarily attributable to losses related to the disposition of Fingerhut. As a result of the settlement, the Company recognized a tax benefit of approximately \$80 million and approximately \$17 million of interest income (totaling approximately 16 cents per diluted share) during the second quarter of 2006.

On May 22, 2006, the Company completed a third transaction under its previously announced agreement to sell its and May's credit card accounts and related receivables to Citigroup. The Company sold a portion of the acquired May credit card accounts and related receivables to Citigroup, resulting in a pre-tax gain of approximately \$5 million. The net proceeds of approximately \$800 million have been or will be used to repay short-term borrowings associated with the acquisition of May.

On June 1, 2006, the Company provided notice to the trustee that the Company was calling the \$200 million 8.30% senior debentures due 2026. The redemption date will be July 17, 2006 and the redemption price will be 104.15% of face value, or \$1,041.50 per thousand. The carrying value of the \$200 million 8.30% senior debentures at April 29, 2006 approximates the redemption price.

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

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

For purposes of the following discussion, all references to "first quarter of 2006" and "first quarter of 2005" are to the Company's 13-week fiscal periods ended April 29, 2006 and April 30, 2005, respectively.

The Company is a retail organization operating retail 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 45 states, the District of Columbia, Puerto Rico and Guam. The Company's operations are significantly impacted by competitive pressures from department stores, specialty stores and mass merchandisers and all other retail channels. The Company's operations are also significantly impacted by general consumer-spending levels, which are driven in part by consumer confidence and employment levels.

In 2003, the Company commenced the implementation of a strategy to more fully utilize its Macy's brand. This strategy allows the Company to magnify the impact of its marketing efforts on a nationwide basis, as well as to leverage major events such as the Macy's Thanksgiving Day Parade and Macy's 4<sup>th</sup> of July fireworks. On March 6, 2005, the Company completed the conversion of all of the Company's regional department store nameplates to the Macy's nameplate. As a result, prior to the acquisition of The May Department Stores Company ("May"), the Company operated coast-to-coast exclusively under two retail brands - Macy's and Bloomingdale's.

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. While its benefits have taken longer to be realized, the centralized operation is still expected to accelerate future sales in these categories largely by improving and further differentiating the Company's home-related merchandise assortments.

Over the past three years, the Company focused 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 2005, the Company launched a new nationwide Macy's customer loyalty program, called Star Rewards, in coordination with the launch of the Macy's nameplate in cities across the country. The program provides an enhanced level of offers and benefits to Macy's best credit card customers.

On August 30, 2005, the Company completed its merger with May (the "Merger"). The results of May's operations have been included in the consolidated financial statements since that date. The aggregate purchase price for May was approximately \$11.7 billion, including approximately \$5.7 billion of cash and approximately 200 million shares of Company common stock and options to purchase an additional 18.8 million shares of Company common stock valued at approximately \$6.0 billion in the aggregate. In connection with the Merger, the Company also assumed approximately \$6.0 billion of May debt.

The Merger is expected to have a material effect on the Company's consolidated financial position, results of operations and cash flows. The Company expects to realize approximately \$175 million of cost savings in 2006 and at least \$450 million of annual cost savings starting in 2007, resulting from the consolidation of central functions, division integrations and the adoption of best practices across the combined company. The Merger is also expected to accelerate comparable store sales



growth. The Company anticipates incurring approximately \$521-596 million of May integration costs (including inventory valuation adjustments) in the remaining three quarters of fiscal 2006.

The Company expects to add about 400 Macy's locations nationwide in 2006 as it converts the regional department store nameplates acquired through the Merger. In conjunction with the conversion process, the Company has identified approximately 80 locations which will be divested starting in 2006, including approximately 40 current May stores having operated in 11 states under various nameplates, as well as approximately 40 Macy's stores having operated in 15 states. Locations identified for divestiture accounted for approximately \$2.2 billion of 2005 sales on a pro forma basis. As of June 7, 2006, the Company had sold or entered into agreements for the sale of 56 of these stores. On September 20, 2005 and January 12, 2006, the Company announced its intention to dispose of the acquired May bridal group business, which includes the operations of David's Bridal, After Hours Formalwear and Priscilla of Boston, and the acquired Lord & Taylor division of May, respectively. As a result of the Company's decision to dispose of these businesses, these businesses are being reported as discontinued operations. Unless otherwise indicated, the following discussion relates to the Company's continuing operations. The Company is continuing to study its store portfolio in light of the Merger and some plans may change as conversion dates approach.

In June 2005, the Company entered into a Purchase, Sale and Servicing Transfer Agreement (the "Purchase Agreement") with Citibank, N.A. pursuant to which the Company agreed to sell to Citibank (i) the proprietary and non-proprietary credit card accounts owned by the Company, together with related receivables balances, and the capital stock of Prime Receivables Corporation, a wholly owned subsidiary of the Company, which owned all of the Company's interest in the Prime Credit Card Master Trust (the "FDS Credit Assets"), (ii) the "Macy's" credit card accounts owned by GE Capital Consumer Card Co. ("GE Bank"), together with related receivables balances (the "GE/Macy's Credit Assets"), upon the termination of the Company's credit card program agreement with GE Bank, and (iii) the proprietary credit card accounts owned by May, together with related receivables balances (the "May Credit Assets"), prior to August 30, 2006. The purchase by Citibank of the FDS Credit Assets was completed on October 24, 2005. The purchase by Citibank of the GE/Macy's Credit Assets was completed on May 1, 2006 and the purchase by Citibank of a portion of the May Credit Assets was completed on May 22, 2006.

In connection with the Purchase Agreement, the Company and Citibank entered into a long-term marketing and servicing alliance pursuant to the terms of a Credit Card Program Agreement (the "Program Agreement") with an initial term of 10 years commencing from the date of the last closing under the Purchase Agreement and, unless terminated by either party as of the expiration of the initial term, an additional renewal term of three years. The Program Agreement provides for, among other things, (i) the ownership by Citibank of the accounts purchased by Citibank pursuant to the Purchase Agreement, (ii) the ownership by Citibank of new accounts opened by the Company's customers, (iii) the provision of credit by Citibank to the holders of the credit cards associated with the foregoing accounts, (iv) the servicing of the foregoing accounts, and (v) the allocation between Citibank and the Company of the economic benefits and burdens associated with the foregoing and other aspects of the alliance.

The sales prices provided for in the Purchase Agreement equate to approximately 111.5% of the receivables to be included in the FDS Credit Assets, the GE/Macy's Credit Assets and the May Credit Assets, and the Company will receive ongoing payments under the Program Agreement. The transactions contemplated by the Purchase Agreement and the Program Agreement are expected to be accretive to the Company's earnings per share, particularly as the sales of the GE/Macy's Credit Assets and the May Credit Assets are completed.

The following discussion should be read in conjunction with our Consolidated Financial Statements and the related notes included elsewhere in this report. The following discussion contains forward-looking statements that reflect the Company's plans, estimates and beliefs. The Company's actual results could materially differ from those discussed in these forward-looking statements. Factors that could cause or contribute to those differences include, but are not limited to, those discussed below and elsewhere in this report, particularly in "Forward-Looking Statements."

## **Results of Operations**

### **Comparison of the 13 Weeks Ended April 29, 2006 and April 30, 2005**

The net loss for the first quarter of 2006 was \$52 million compared to net income of \$123 million in the first quarter of 2005. The net loss for the first quarter of 2006 includes a loss from continuing operations of \$74 million, partially offset by income from discontinued operations of \$22 million. The loss from continuing operations in the first quarter of 2006 includes the impact of \$129 million of May integration costs and related inventory valuation adjustments, the impact of merger integration issues on the Company's businesses and higher interest expense associated with the increased levels of borrowings associated with the acquisition of May.

Net sales for the first quarter of 2006 totaled \$5,930 million, up 62.9% compared to net sales of \$3,641 million for the first quarter of 2005. On a comparable store basis (sales from Bloomingdale's and Macy's stores in operation throughout 2005 and 2006 and all Internet sales and mail order sales from continuing businesses), net sales for the first quarter of 2006 were flat compared to the first quarter of 2005. Sales in the first quarter of 2006 were strongest at Macy's Florida. By family of business, sales in Macy's and Bloomingdale's branded stores during the first quarter of 2006 were strongest in dresses, junior's, young men's, cosmetics and fragrances and men's and were weakest in the home related areas, although housewares, textiles and luggage did have improved performance in the later part of the quarter.

Cost of sales was 61.2% of net sales for the first quarter of 2006, compared to 59.8% for the first quarter of 2005. The cost of sales rate in the first quarter of 2006 was impacted by markdowns in the legacy May locations needed to improve aging and transition to the Macy's assortments. In addition, gross margin for the first quarter of 2006 reflects \$6 million of inventory valuation adjustments related to the integration of May and Federated merchandise assortments. 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 36.3% of net sales for the first quarter of 2006 compared to 33.3% for the first quarter of 2005. The SG&A expense rate in the first quarter of 2006 was negatively impacted by the sale of the FDS Credit Assets in late 2005, duplicate divisional expenses, higher depreciation and amortization expense and higher stock-based compensation expenses, including the expensing of stock options.

May integration costs for the first quarter of 2006 amounted to \$123 million, primarily related to costs associated with the closing of duplicate store locations.

Net interest expense was \$138 million for the first quarter of 2006, compared to \$54 million for the first quarter of 2005. The increase in interest expense in the first quarter of 2006 over the first quarter of 2005 is due to the increased levels of borrowings associated with the acquisition of May.

The Company's effective income tax rate of 37.5% for the first quarter of 2006 and 37.7% for the first quarter of 2005 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.

For the first quarter of 2006, income from the discontinued operations of the acquired May bridal group business and Lord & Taylor businesses, net of income taxes, was \$22 million on sales of approximately \$564 million.

### **Liquidity and Capital Resources**

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

Net cash used by continuing operating activities in the first quarter of 2006 was \$114 million, compared to the \$56 million of net cash provided in the first quarter of 2005, reflecting the impact of transitional issues associated with the integration of May's businesses with the Company's businesses.

Net cash used by continuing investing activities was \$84 million for the first quarter of 2006, compared to \$61 million for the first quarter of 2005. Continuing investing activities for the first quarter of 2006 included purchases of property and equipment totaling \$86 million and capitalized software of \$17 million. Continuing investing activities for the first quarter of 2005 included purchases of property and equipment totaling \$36 million, capitalized software of \$16 million and an increase in non-proprietary accounts receivable of \$16 million.

Net cash provided by the Company from all continuing financing activities was \$178 million for the first quarter of 2006, including the issuance of \$162 million of Company Common Stock, primarily related to the exercise of stock options, an increase in outstanding checks of \$71 million and net debt issued of \$14 million, partially offset by cash dividends paid of \$69 million. The net debt issued during the first quarter of 2006 includes additional borrowings under the Company's commercial paper program, partially offset by the payment of \$100 million of senior debentures due 2006.

Net cash provided by the Company from all continuing financing activities was \$55 million for the first quarter of 2005, including the issuance of \$105 million of Company Common Stock, primarily related to the exercise of stock options, partially offset by cash dividends paid of \$23 million.

On March 28, 2006, the Company's board of directors declared a regular quarterly dividend of 12.75 cents per share on its common stock, payable July 3, 2006 to Federated shareholders of record at the close of business on June 16, 2006. This dividend is an increase of two percent over the previous quarterly dividend rate of 12.5 cents per share.

On May 19, 2006, the Company's board of directors approved a two-for-one stock split to be effected in the form of a stock dividend. The additional shares resulting from the stock split will be distributed after the close of trading on June 9, 2006 to shareholders of record on May 26, 2006.

In connection with the Merger, the Company entered into a 364-day bridge credit agreement with certain financial institutions providing for revolving credit borrowings in an aggregate amount initially not to exceed \$5.0 billion outstanding at any particular time. The aggregate amount of the facility will be reduced upon the receipt by the Company of net cash proceeds from certain events, including certain sales or other dispositions of assets aggregating \$100 million or more, the issuance of certain equity interests and the incurrence of certain long term indebtedness. As of June 7, 2006, the aggregate amount of the facility had been reduced to \$1,291 million primarily as a result of the proceeds received from the sale of the FDS Credit Assets, the GE/Macy's Credit Assets and a portion of the May Credit Assets. As of June 7, 2006, the Company had no borrowings outstanding under the 364-day bridge credit agreement.

The fourth and final transaction with Citigroup consisting of the remainder of the acquired May Credit Assets is expected to close in late July or August 2006.

On May 24, 2006, the Company received a refund of \$155 million from the Internal Revenue Service ("IRS") as a result of settling an IRS examination for fiscal years 2000, 2001, and 2002. The refund is primarily attributable to losses related to the disposition of Fingerhut. As a result of the settlement, the Company recognized a tax benefit of approximately \$80 million and approximately \$17 million of interest income (totaling approximately 16 cents per diluted share) during the second quarter of 2006.

On June 1, 2006, the Company provided notice to the trustee that the Company was calling the \$200 million 8.30% senior debentures due 2026. The redemption date will be July 17, 2006 and the redemption price will be 104.15% of face value, or \$1,041.50 per thousand. The carrying value of the \$200 million 8.30% senior debentures at April 29, 2006 approximates the redemption price.

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 other cash requirements 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 sufficient levels of liquidity. 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 from one or more of the following sources: cash on hand, cash from operations, borrowings under existing or new credit facilities and the issuance of long-term debt, commercial paper or other securities, including Common Stock.

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

The Company's Chief Executive Officer and Chief Financial Officer have carried out, as of April 29, 2006, with the participation of the Company's management, an evaluation of the effectiveness of the Company's disclosure controls and procedures, as defined in Rule 13a-15(e) under the Exchange Act. Based upon this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective to provide reasonable assurance that material information required to be disclosed in reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms.

The Company is in the process of making changes to the internal control over financial reporting historically used in acquired May divisions and operations to conform such internal control to that used in the Company's other divisions and operations. Based on information presently available to management, the Company does not believe that such changes will materially affect the Company's internal control over financial reporting. Subject to the foregoing, there were no changes in the Company's internal controls 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.**

On January 11, 2006, Edward Decristofaro, an alleged former May stockholder, filed a purported class action lawsuit on behalf of all former May stockholders in the Circuit Court of St. Louis, Missouri against May and the former members of the board of directors of May. The complaint generally alleges that the directors of May breached their fiduciary duties of loyalty, due care, good faith and candor to May stockholders in connection with the Merger. The Company believes the lawsuit is without merit and intends to contest it vigorously. The defendants have filed a motion to dismiss the lawsuit upon which the Court has not yet ruled.

#### **Item 1A. Risk Factors.**

There have been no material changes to the Risk Factors described in the Company's Annual Report on Form 10-K in Part I,

"Item 1A. Risk Factors" in the Company's Annual Report on Form 10-K for the fiscal year ended January 28, 2006 as filed with the Securities and Exchange Commission.

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

The Company purchased no shares of its common stock in the first quarter of 2006.

During the first quarter of 2006, Federated issued approximately 191,000 shares (as adjusted to reflect a two-for-one stock split effected in the form of a stock dividend payable on June 9, 2006) of its common stock to fund its matching obligations under its Profit Sharing 401(k) Investment Plan (the "401(k) Plan") that it subsequently determined were not issued pursuant to an effective registration statement under the Securities Act. No monetary consideration was received for such shares. However, the high and low price for the Company's common stock on the NYSE (as adjusted to reflect a two-for-one stock split effected in the form of a stock dividend payable on June 9, 2006) during the first quarter of 2006 was \$39.21 and \$32.38, respectively.

## **Item 4. Submission of Matters to a Vote of Security Holders**

The Annual Meeting of the Company's stockholders was held on May 19, 2006. The Company's stockholders voted on the following items at such meeting:

- (a) The stockholders approved the election of three Directors for a one-year term expiring at the 2007 Annual Meeting of the Company's stockholders. The votes for such elections were as follows: Joyce M. Roché - 237,450,560 votes in favor and 4,684,796 votes withheld; William P. Stiritz - 237,785,772 votes in favor and 4,349,585 votes withheld and Craig E. Weatherup - 236,625,924 votes in favor and 5,509,432 votes withheld.
- (b) The stockholders ratified the employment of KPMG LLP as the Company's independent registered public accounting firm for the fiscal year ending February 3, 2007. The votes for the ratification were 236,362,867, the votes against the ratification were 3,007,914 and the votes abstained were 2,919,177. There were no broker non-votes.
- (c) The stockholders approved a proposal to amend the Company's Certificate of Incorporation. The votes for the proposal were 232,093,807, the votes against the proposal were 7,164,426, and the votes abstained were 3,031,722. There were no broker non-votes.
- (d) The stockholders approved a proposal to amend the 1995 Executive Equity Incentive Plan. The votes for the proposal were 208,565,211, the votes against the proposal were 16,598,759, and the votes abstained were 3,263,043. There were 13,708,343 broker non-votes.
- (e) The stockholders approved a proposal to amend the 1994 Stock Incentive Plan. The votes for the proposal were 215,048,411, the votes against the proposal were 10,207,470, and the votes abstained were 3,172,631. There were 13,706,844 broker non-votes.
- (f) The stockholders rejected a stockholder's proposal to adopt a policy that would limit the number of boards on which Federated's directors may concurrently serve. The votes against the proposal were 156,784,529, the votes for the proposal were 63,641,305, and the votes abstained were 8,001,178. There were 13,708,344 broker non-votes.

## **Item 5. Other Information**

### **Forward Looking Statements**

This report and other reports, statements and information previously or subsequently filed by the Company with 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:

- risks and uncertainties relating to the possible invalidity of the underlying beliefs and assumptions;
- possible changes or developments in social, economic, business, industry, market, legal and regulatory circumstances and conditions;
- 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
- attacks or threats of attacks by terrorists or war.

Without limiting the generality of the foregoing, forward-looking statements regarding the effects of the acquisition of May

are subject to risks and uncertainties relating to, among other things, the successful and timely integration of the acquired businesses with the Company's historical businesses, timely realization of expected cost savings and other synergies, and potential disruption from the transaction which could make it more difficult to maintain relationships with the companies' respective employees, customers and vendors.

No forward-looking statements should 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:

- the acquisition of May;
- 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 in regional markets;
- the retention, reintegration and transitioning of displaced employees;
- the sale of the Company's credit card operations and related strategic alliance;
- competitive pressures from department and specialty stores, general merchandise stores, manufacturers' outlets, off-price and discount stores, and all other retail channels, including the Internet, mail-order catalogs and television; and
- general consumer-spending levels, including the impact of the availability and level of consumer debt, levels of consumer confidence 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.

## **Item 6. Exhibits**

- 3.1 Certificate of Incorporation of Federated Department Stores, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K (File No. 001-135361) for the fiscal year ended January 28, 1995).
- 3.2 Amended and Restated Article Seventh to the Certificate of Incorporation of Federated Department Stores, Inc. (incorporated by reference to Annex F of the Proxy Statement of the Company dated May 31, 2005).
- 3.3 Amended and Restated Section 1 of Article Fourth of the Certificate of Incorporation of Federated Department Stores, Inc. (incorporated by reference to the Proxy Statement of the Company dated April 13, 2006).
- 10.1 Third Amendment to Purchase, Sale and Servicing Transfer Agreement, dated May 1, 2006, between the Company and Citibank, N.A. ("Citibank") (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed May 3, 2006).
- 10.2 Fourth Amendment to Purchase, Sale and Servicing Transfer Agreement, dated May 22, 2006, between the Company and Citibank (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed May 24, 2006).
- 10.3 Second Amendment to the Credit Card Program Agreement, dated May 22, 2006, between Federated, FDS Bank, FACS Group, Inc., Macy's Department Stores, Inc., Bloomingdale's, Inc. and Department Stores National Bank and Citibank (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed May 24, 2006).
- 10.4 Executive Deferred Compensation Plan, amended through January 1, 2005.
- 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.

**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.

Dated: June 8, 2006

FEDERATED DEPARTMENT STORES, INC.

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)

# Executive Deferred Compensation Plan

(Amended through January 1, 2005)

(DOES NOT REFLECT REQUIRED AMENDMENTS FOR SECTION 409A)

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#### EXECUTIVE DEFERRED COMPENSATION PLAN

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## EXECUTIVE DEFERRED COMPENSATION PLAN

OF

FEDERATED DEPARTMENT STORES, INC.

### SECTION 1

**1.1 "Plan"** means the Executive Deferred Compensation Plan of Federated Department Stores, Inc., as described in this instrument.

**1.2 "Company"** means Federated Department Stores, Inc. or any corporate successor thereto. In addition, any reference to this Plan to a "division, subsidiary or affiliate" of the Company shall refer to each corporation (other than the Company) which is a member of a controlled group of corporations (within the meaning of Section 414(b) of the Code) which includes the Company and each other corporation, partnership or other organization (other than the Company) which is part of a group of trades or businesses under common control (within the meaning of Section 414(c) of the Code) with the Company.



**1.3 "Committee"** means one or more Committees appointed to administer the Plan as and to the extent provided in Section 7.

**1.4 "Effective Date"** means November 1, 1993.

**1.5 "Executive"** means an employee of the Company or any division, subsidiary or affiliate of the Company who, with respect to any Plan Year (or, if the employee's Initial Eligibility occurs during such Plan Year, with respect to the portion of such Plan Year that begins on such Initial Eligibility), meets all of the criteria established in accordance with the following provisions of this Section 1.5 (such criteria being called in the following provisions of this Section 1.5 as the "eligibility criteria"):

(a) As of the Effective Date and at any later point in time until changed under subsection (c) below, the eligibility criteria which must be met by an employee in order for him or her to be considered an Executive for any Plan Year (or, if the employee's Initial Eligibility occurs during such Plan Year, with respect to the portion of such Plan Year that begins on such Initial Eligibility) shall be, except as is otherwise provided in subsection (b) below, an annualized rate of base compensation (not including, among other things, bonuses, commissions, overtime pay, stock options, severance pay, retention bonuses, fringe benefits or welfare benefits) of \$100,000 or more as of the start of such Plan Year (or, if the employee's Initial Eligibility occurs during such Plan Year, as of such Initial Eligibility). Notwithstanding the immediately preceding sentence, if an employee who becomes considered an Executive by reason of the immediately preceding sentence for any Plan Year (or, if the employee's Initial Eligibility occurs during such Plan Year, with respect to the portion of such Plan Year that begins on such Initial Eligibility) has his annualized rate of base compensation reduced below \$100,000 during such Plan Year (or such Plan Year portion), he shall not be considered an Executive after the date that occurs in such Plan Year on which his annualized rate of base compensation is so reduced below \$100,000.

(b) Notwithstanding the provisions of subsection (a) above, if an employee is not on March 31, 2000 an Executive for the Plan Year beginning on January 1, 2000 and does not on March 31, 2000 have an annualized rate of base compensation (not including, among other things, bonuses, commissions, overtime pay, stock options, severance pay, retention bonuses, fringe benefits or welfare benefits) of \$100,000 or more, then until changed under subsection (c) below, the eligibility criteria which must be met by the employee in order for him to be considered an Executive for any Plan Year beginning on or after January 1, 2000 (or, if the employee's Initial Eligibility occurs during any such Plan Year, with respect to the portion of such Plan Year that begins on such Initial Eligibility) shall be an annualized rate of base compensation of \$125,000 or more as of the start of such Plan Year (or, if the employee's Initial Eligibility occurs during such Plan Year, as of such Initial Eligibility). Notwithstanding the foregoing, if an Employee is not on September 30, 2001 an Executive under the eligibility criteria set forth in the immediately preceding sentences, then, as of January 1, 2002 and at any later point in time until changed under paragraph (c) below, the eligibility criteria which must be met by the Employee in order for him or her to be considered an Executive shall be an annualized rate of base compensation of \$175,000 or more. Notwithstanding the immediately preceding sentence, if an employee who becomes considered an Executive by reason of the immediately preceding sentence for any Plan Year beginning on or after January 1, 2002 (or, if the employee's Initial Eligibility occurs during any such Plan Year, with respect to the portion of such Plan Year that begins on such Initial Eligibility) has his annualized rate of base compensation reduced below \$175,000 during such Plan Year (or such Plan Year portion), he shall not be considered an Executive after the date that occurs in such Plan Year on which his annualized rate of base compensation is so reduced below \$175,000.

Notwithstanding the foregoing, if an Employee is not on September 30, 2003 an Executive under the eligibility criteria set forth in the immediately preceding sentences, then, as of January 1, 2004 and at any later point in time until changed under paragraph (c) below, the eligibility criteria which must be met by the Employee in order for him or her to be considered an Executive shall be an annualized rate of base compensation of \$205,000 or more. The dollar amount referred to in this paragraph shall be increased at the same time and in the same manner as the dollar limit in effect under Internal Revenue Code section 401(a)(17). If an employee who becomes considered an Executive under this paragraph for any Plan Year beginning on or after January 1, 2004 (or, if the employee's Initial Eligibility occurs during any such Plan Year, with respect to the portion of such Plan Year that begins on such Initial Eligibility) has his or her annualized rate of base compensation reduced below the minimum amount for said employee to be considered an Executive during such Plan Year (or such Plan Year portion), he or she shall not be considered an Executive after the date that occurs in such Plan Year on which his or her annualized rate of base compensation is so reduced below the minimum amount for said employee to be considered an

Executive.

(c) Subject to the provisions of subsection (d) below but notwithstanding the provisions of subsections (a) and (b) above, the Committee may, at any time and from time to time, increase the dollar amount set forth in subsection (a) or (b) above, that applies to any group of Employees, or otherwise change the eligibility criteria applicable to any group of Employees, pursuant to a written resolution adopted either at any meeting of the Committee or in a writing signed by all members of the Committee.

(d) Notwithstanding any other provision of the Plan, each employee, in order to meet the eligibility criteria applicable to him so that he is considered an Executive for any Plan Year (or, if the employee's Initial Eligibility occurs during such Plan Year, for the portion of such Plan Year that begins on such Initial Eligibility), must not only meet the conditions set forth in the other subsections of this Section 1.5 but also must be part of a select group of management or other highly compensated employees (within the meaning of Sections 201, 301 and 401 of ERISA) of the Company and its divisions, subsidiaries and affiliates throughout such period. As a result, the Committee shall, pursuant to its power to amend the eligibility criteria under the provisions of subsection (c) above, amend the eligibility criteria that applies to any group of employees if necessary to ensure that every employee who meets the eligibility criteria applicable to him in effect at such time is part of such a select group of management or other highly compensated employees of the Company and its divisions, subsidiaries and affiliates.

(e) Also, notwithstanding any other provision of the Plan, any employee who is classified during any period as an employee (for payment and withholding purposes) of any corporation, partnership or other organization (for purposes of this subsection (e), an "acquired company") that first becomes a member of a controlled group of corporations (within the meaning of Section 414(b) of the Code) which includes the Company or a part of a group of trades or businesses under common control (within the meaning of Section 414(c) of the Code) with the Company as a result of the acquisition by the Company and/or a division, subsidiary or affiliate of the Company of the stock or interests of the acquired company or substantially all of the assets of a trade or business of another organization shall not, during such period, be considered an Executive under this Plan, unless either (i) the agreements by which such stock, interests or assets were acquired by the Company and/or a division, subsidiary or affiliate of the Company expressly provide that the employees of the acquired company will be eligible to participate in this Plan, (ii) the Plan is amended by the Company to permit the employees of the acquired company to participate in this Plan or (iii) the Board of Directors of the Company adopts resolutions that provide for the employees of the acquired company to participate in this Plan.

(f) Consistent with the provisions of subsection (d) above, and in connection with the transaction by which the stock of Fingerhut Companies, Inc. ("Fingerhut") was acquired by the Company as of March 18, 1999 and by which Fingerhut and its subsidiaries thereupon became members of a controlled group of corporations (within the meaning of Section 414(b) of the Code) which includes the Company, for any date or period on or after March 18, 1999 any employee who is then classified as an employee (for payment and withholding purposes) of Fingerhut (or any corporate successor thereto) or any subsidiary of Fingerhut shall not be considered an Executive under this Plan. For purposes hereof, a "subsidiary" of Fingerhut means any corporation, partnership or other organization other than Fingerhut which is in a chain of corporations, partnerships and/or other organizations that begins with Fingerhut and in which at least 80% of the voting interests in each corporation, partnership or other organization in such chain (other than Fingerhut) is owned by Fingerhut or another corporation, partnership or other organization in such chain.

(g) Any eligibility criteria which is established under the foregoing subsections of this Section 1.5 as to any group of employees shall remain in effect until changed by the Committee pursuant to the foregoing provisions of this Section 1.5. In addition, any written resolution of the Committee which amends the eligibility as to any group of employees criteria shall hereby be incorporated by reference into, and hereby made a part of, the Plan. In addition to the right of the Company's Board of Directors to amend the Plan pursuant to the provisions of Section 9.1 below, the Committee may in its discretion (but is not required to) amend the Plan to reflect any action that is taken by the Committee under the provisions of this Section 1.5 to change the Plan's eligibility criteria as to any group of employees if the Committee determines that such action will be helpful in construing the Plan in the future.

For purposes hereof, any reference to an "employee" refers to, at any point in time, any individual who is a common law employee of the Company or a division, subsidiary or affiliate of the Company and who is classified as an employee by the Company or a division, subsidiary or affiliate of the Company for

payroll payment and withholding purposes at such time.

**1.6 "Initial Eligibility"** means (a) for each Plan Year beginning January 1, 1994 or later, the first day of the calendar quarter following the date an employee of the Company becomes an Executive; and (b) as to an Executive who was hired on or before May 1, 1993, (i) November 1, 1993 if his base salary on that date was at least \$150,000, and (ii) December 1, 1993 if his base salary on that date was at least \$96,368 and less than \$150,000.

**1.7 "Fiscal Year"** means the fiscal year of the Company as established from time to time.

**1.8 "Participant"** means a person a portion of whose compensation for any Plan Year has been deferred pursuant to the Plan and whose Cash or Stock Credits have not been wholly distributed.

**1.9 "Deferred Compensation"** means the portion of a Participant's compensation for any Plan Year, or part thereof, that has been deferred pursuant to the Plan.

**1.10 "Cash Credits"** of a Participant at any time the sum of all amounts, including interest equivalents, theretofore credited to him pursuant to Section 3.1(a)(i), less the amounts theretofore distributed.

**1.11 "Stock Credits"** of a Participant at any time mean the aggregate of all stock equivalents and dividend equivalents theretofore credited to him pursuant to Section 4.1, less the amounts thereof theretofore distributed.

**1.12 "Termination of Service"** or similar expression means the termination of the Participant's employment as a regular employee of the Company and any division, subsidiary or affiliate thereof, and shall include retirement. A Participant who is on temporary leave of absence, whether with or without pay, shall not be deemed to have terminated his service.

**1.13 "Plan Year"** means the calendar year.

**1.14 "Code"** means the Internal Revenue Code of 1986, as such code exists as of the Effective Date or as it may thereafter be amended.

**1.15 "Short Term Cash Deferrals"** of a Participant at any time means the sum of all amounts credited to him pursuant to Section 3.1(a)(ii) less the amounts theretofore distributed.

## SECTION 2

**2.1** Each Executive of the Company or of any division, subsidiary or affiliate of the Company may elect to have a percentage of his base compensation, to be received by him during each Plan Year from and after January 1, 1994 deferred in accordance with the terms and conditions of the Plan. The percentage of such base compensation that may be so deferred for any Plan Year shall not exceed 50%, which percentage in each case shall be a multiple of 5%.

An Executive desiring to exercise such election shall, prior to the beginning of each such Plan Year (or prior to the beginning of the calendar quarter immediately following the Executive's Initial Eligibility, if other than at the beginning of a Plan Year, but in no event later than thirty days after his Initial Eligibility), notify the Company, in writing, of the percentage of such base compensation for such Plan Year that he elects to be so deferred.

Prior to each Plan Year beginning on or after January 1, 1994 and each Plan Year thereafter, each Executive may make a separate election to defer all or a portion of any annual incentive bonus or any long-term incentive bonus, the measurement period for which commences with or within the Plan Year for which an election is being made. Such percentage shall not exceed 100% as to any cash bonuses to be paid under the Company's 1992 Incentive Bonus Plan (or any successor plan) during any such Plan Year. Each such percentage shall be in each case a multiple of 5%.

Effective January 1, 2002, any individual who is offered and accepts employment with the Company at an annualized rate of base compensation which would satisfy the requirements of Section 1.5 may, prior to the date he or she first performs any service for the Company, make a separate election to defer all or a

portion of any sign-on bonus. Such election shall not exceed 100% of the sign-on bonus and shall be a multiple of 5%.

Prior to each Plan Year beginning on or after January 1, 2002 and each Plan Year thereafter, each Executive may make a separate election to defer all or a portion of any gains that would otherwise be realized upon the exercise of a non-qualified stock option for that Plan Year. The election must identify the number of options, the grant date, and the grant price. The exercise date must be no earlier than the calendar year following the date of the election and at least six months after the date of the election. The deferral must be made in the form of Stock Credits. In order to defer the gain on the exercise of non-qualified stock options, the Executive must provide an affidavit of ownership (for at least six months prior to the exercise date) of the appropriate number of already-owned shares the fair market value of which equals the exercise price. The election shall be made in accordance with rules to be adopted by the Committee. The provisions of this paragraph shall not apply to any elections made for Plan Years beginning on or after January 1, 2005.

Each Executive eligible for 1993 deferrals may make a separate election (i) prior to November 1, 1993 to have a percentage of his base compensation during the period from November 1, 1993 to December 31, 1993, or (ii) prior to December 1, 1993 to have a percentage of his base compensation during the period from December 1, 1993 to December 31, 1993, depending on the Initial Eligibility date applicable to such Executive, deferred in accordance with the terms and conditions of the Plan. The percentage of such base compensation that may be deferred for such period shall not exceed 90%, which percentage shall be a multiple of 5%.

Notwithstanding any of the foregoing provisions of this Section 2.1, any election of an employee of the Company or any division, subsidiary or affiliate of the Company who is an Executive to defer any compensation under this Plan for any Plan Year (or, if the employee's Initial Eligibility occurs during such Plan Year, for the portion of such Plan Year that begins on such Initial Eligibility) shall not apply to any compensation that is payable for services performed by such employee during such Plan Year after the date he is no longer an Executive.

Also notwithstanding any of the foregoing provisions of this Section 2.1, any election of an employee of the Company or any division, subsidiary or affiliate of the Company who is an Executive to defer any compensation under this Plan for any Plan Year (or, if the employee's Initial Eligibility occurs during such Plan Year, for the portion of such Plan Year that begins on such Initial Eligibility) shall not apply to any compensation that is payable within the one year period that follows the date as of which the employee received, from any plan which is maintained by the Company or any division, subsidiary or affiliate of the Company and qualified under Section 401(a) of the Code, a hardship withdrawal of amounts which were contributed to such plan under a qualified cash or deferred arrangement (as defined in Section 401(k) of the Code).

**2.2** The amount of a Participant's Deferred Compensation shall be credited to him either as a Cash Credit, a Short Term Cash Deferral, or a Stock Credit as provided in Section 3 or Section 4, as the case may be, pursuant to the Participant's election for any Plan Year. Such election shall be made in writing at the same time that the Participant elects said percentage as provided in Section 2.1. If a Participant shall fail to make such election at such time, he shall be deemed to have elected the Deferred Compensation credited to him as a Stock Credit.

**2.3** A Participant's Cash Credits and Stock Credits shall be distributable in the manner and subject to the conditions set forth in Section 6.

### **SECTION 3**

**3.1 (a)** The following rules shall apply to deferrals under the Plan.

(i) If a Cash Credit is elected, the Participant shall be credited, as of the end of each calendar quarter of each Plan Year for which the election was made, with the dollar amount of the Deferred Compensation.

(ii) If a Short Term Cash Deferral is elected, the Participant shall be credited, as of the end of each calendar quarter of each Plan Year for which the election was made, with the dollar amount of the Short Term Cash Deferral.

**(b)** The Cash Credits and Short Term Cash Deferrals of each Participant shall be credited, as of the end of each calendar quarter, with an interest equivalent determined by applying to 100% of such Participant's Cash Credits and/or Short Term Cash Deferrals at the beginning of each calendar quarter, less the amounts distributable or withdrawn pursuant to Section 6 during such quarter, an interest rate equal to one quarter of the percent per annum on United States Five-Year Treasury Bills as of the last day of such calendar quarter.

#### **SECTION 4**

**4.1 (a)** If a Stock Credit elected, the Participant shall be credited, as of the end of each calendar quarter, with a stock equivalent which shall be the number of full shares of common stock of the Company that is transferred to or purchased by the Trust provided for in Section 7.4 with the amount of his Deferred Compensation for such calendar quarter and with the dollar amount of any part of such credit that is not convertible into a full share.

**(b)** The Stock Credits of each Participant shall be credited, as of the end of each calendar quarter, with a dividend equivalent which shall be an amount determined by multiplying the dividends payable, either in cash or property (other than common stock of the Company), upon a share of common stock of the Company to a stockholder of record during such calendar quarter, by the number of shares in the Participant's Stock Credits at the beginning of such calendar quarter, less the number of shares distributable or withdrawn pursuant to Section 6 during such quarter for which credit is being made. In case of dividends payable in property, the dividend equivalent shall be based on the fair market value of the property at the time of distribution of the dividend, as determined by the Committee. If the dollar amount credited to the Stock Credits of a Participant at the end of any calendar quarter equals or exceeds the average closing price of one share of common stock of the Company determined as provided in subsection (a) of this Section 4.1, such amount shall be treated as if it were a Stock Credit made on such date and such dollar amount shall be reduced accordingly.

**(c)** If at any time the number of outstanding shares of common stock of the Company shall be increased as the result of any stock dividend or split-up, the number of shares credited to each Participant's Stock Credits shall be increased in the same proportion as the outstanding number of shares of common stock is increased, or if the number of outstanding shares of common stock of the Company shall at any time be decreased as the result of any combination of outstanding shares, the number of shares credited to each Participant's Stock Credits shall be decreased in the same proportion as the outstanding number of shares of common stock is decreased. In the event the Company shall at any time be consolidated with or merged into any other corporation, there shall be credited to each Participant's Stock Credits, in lieu of the common stock of the Company then credited thereto, the stock of securities given in exchange for a share of common stock of the Company upon such consolidation or merger, multiplied by the number of shares of common stock then credited to the Stock Credits of the Participant.

#### **SECTION 5**

**5.1** If the Company shall be adjudicated or determined to be insolvent by a court of competent jurisdiction, either in bankruptcy or otherwise, all Stock Credits of all Participants shall be deemed as of the date of commencement of such proceeding, to be Cash Credits in the same dollar amount as would have been credited to them at the time such Stock Credits were credited had they at that time elected to have them credited as Cash Credits, together with interest equivalents thereon from that time computed as provided in Section 3.1(b); and together with all other credits of all Participants shall constitute debts of the Company in any such proceeding.

#### **SECTION 6**

**6.1 (a)** The following rules shall apply to distributions under the Plan.

**(i)** Except in the case of a Participant who has exercised the election provided in the following paragraph of this Section 6.1(a), such distribution shall be made in fifteen approximately equal annual installments.

**(ii)** A Participant may request in writing to the Committee at any time prior to the termination of his service that the distribution of his Cash or Stock Credits to him following such termination shall be made in one to fifteen approximately equal

installments as the Participant shall request. The Committee in its sole discretion shall determine whether to grant such request. Such request by a Participant may be exercised only once and shall, if approved by the Committee, be irrevocable.

**(iii)** Notwithstanding the foregoing provisions of this section, if a Participant's Cash and Stock Credits shall have a value of less than \$15,000 at the date of termination of his service, payment of such Cash and Stock Credits shall be made in one installment. Such value of Stock Credits shall be based on the closing market price on the New York Stock Exchange on the nearest day of sale preceding the date of termination of his service.

**(iv)** For deferral elections made for Plan Years beginning in 2002 and later, a Participant may elect in writing, at the time of his or her election under Section 2, to commence distribution of his or her Short Term Cash Deferrals at a fixed date which is not less than five (5) years after the beginning of the Plan Year for which the deferral is made. Such distribution may be paid in one to fifteen approximately equal annual installments, as elected by the Participant at the time of the deferral, provided that, if no election is made, (a) such distributions shall be paid in fifteen approximately equal annual installments, or (b) if the Short Term Cash Deferral amount is less than \$15,000, in one installment. Any interest equivalents applied to Short Term Cash Deferrals shall be distributed in the same manner as Cash Credits. Notwithstanding a Participant's election in this Section 6.1(a)(iv), in the event a Participant terminates employment prior to the commencement of distribution of distribution of a Plan Year's Short Term Cash Deferrals, such amounts shall be distributed in the same manner as Cash Credits.

**(b)** Distribution of the Cash and Stock Credits pursuant to subsection (a) of this Section 6.1 shall be made as soon as practicable following the end of the Fiscal Year in which such termination of service occurred.

**(c)** A Participant may request in writing to the Committee prior to the termination of his service, that the distribution of his Cash or Stock Credits, in the event that his service shall terminate by reason of his death, to the person or persons designated as provided in Section 6.2 or to his estate, as the case may be, shall be made in approximately equal installments as the Participant shall request not to exceed fifteen. The Committee in its sole discretion shall determine whether to grant such request. If no request is made, such distribution shall be made in fifteen installments. In any event, if the beneficiary is an estate or if the value of the Participant's Cash and Stock Credits shall be less than \$15,000 at the date of the Participant's death (such value determined in accordance with Section 6.1(a)(iii), payment shall be made in one installment.

**(d)** Notwithstanding the foregoing provisions of this section, in the event of a "designated change of control" (as defined herein) of the Company, distribution of the Cash and Stock Credits of a Participant (or the person or persons designated as provided in Section 6.2) shall be made to such person in a single payment as soon as practicable following such "designated change of control", in accordance with the provisions of Section 6.4 but no sooner than 30 days after such "designated change of control" occurs. For purposes of this paragraph, a "designated change of control" of the Company shall be deemed to have occurred if any of the following transactions shall have transpired: (i) any person or group (within the meaning of Section 13(d) and 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Act"), other than an employee benefit plan sponsored by the Company) makes a tender or exchange offer for shares of common stock of the Company (other than pursuant to a merger or consolidation agreement) pursuant to which purchases are made which result (together with any other holding) in such person or group becoming the beneficial owner within the meaning of Rule 13d-3 under the Act of more than 20% of the Company's then outstanding common stock; (ii) the Company becomes aware that any person or group (as defined above) has become the beneficial owner (as defined above) of more than 20% of the Company's then outstanding common stock and such information has been presented to and considered by the Board of Directors; (iii) the stockholders of the Company approve a definitive agreement to merge or consolidate the Company with or into another corporation or to sell or otherwise dispose of all or substantially all its assets, or adopt a plan of dissolution or liquidation; or (iv) individuals who were members of the Board of Directors cease to constitute at least a majority thereof as a result of a contested election. The foregoing notwithstanding, a merger of Federated Department Stores, Inc. with R.H. Macy & Co., Inc. pursuant to the Joint Plan of Reorganization of R.H. Macy & Co., Inc. and certain of its subsidiaries for which Federated Department Stores, Inc. and R.H. Macy & Co., Inc. are joint plan

proponents, filed with the United States Bankruptcy Court for the Southern District of New York on July 29, 1994, as the same may be amended or modified, shall not be deemed a "designated change of control" of the Company for the purposes of this Plan.

**6.2** Any Cash or Stock Credits or remaining undistributed installments thereof, which become distributable after the death of a Participant, shall be distributed in installments, as provided in this Section 6, to such person or persons, or the survivors thereof, including corporations, unincorporated associations or trusts as the Participant may designate. The Participant may also designate to his widow the absolute power to appoint by will one or more persons including her estate, to receive payments distributable to her if she should die before all distributions have been received. All such designations shall be made in writing delivered to the Committee. The Participant may from time to time revoke or change any such designation on file with the Committee. At the time of the Participant's death, if the person or persons designated therein shall have all predeceased the Participant or otherwise ceased to exist or if no beneficiary designation is on file, such distributions shall be made to the Participant's estate. If the person or persons designated therein shall survive the Participant but shall die before receiving all of such distribution, the balance thereof payable to such deceased distributee shall, unless the Participant's designation provides otherwise, be distributed to such deceased distributee's estate.

**6.3** The distribution of the Cash or Stock Credits of a Participant whose service is terminated by reason of his death shall be made as provided in Section 6.1(c). If the death of the Participant occurs after the termination of his service, the number of installments remaining to be paid shall be the number which otherwise would be distributable to the Participant, provided that the beneficiary may request, within six months of the death of the Participant, in writing to the Committee a shorter number of installments as to all installments which have not yet become payable. The Committee in its sole discretion shall determine whether to grant such request. In any event, if the beneficiary is an estate, payment shall be made in one installment.

**6.4** Distribution of the Cash Credits of a Participant shall be made in cash. Distribution of the Stock Credits of a Participant shall be made by delivery of the number of shares of common stock of the Company credited from the shares held in the Trust provided for in Section 7.4 hereof and by payment of the balance, if any, in cash, except to the extent provided for in Section 6.5. The Committee may, with the consent of the person or persons then entitled to receive distribution of the next payable Cash or Stock Credits (including Stock Credits as to which the elections provided in the following paragraphs have been exercised), make other changes in the time of distribution of all or part of the undistributed Cash or Stock Credits.

**6.5** To the extent that the Company or the trustee provided for in Section 7.4 hereof is required to withhold federal, state, local or foreign taxes in connection with any payment made to a Participant or other person hereunder, it shall be a condition to the receipt of such payment that the Participant or such other person make arrangements satisfactory to the Company or the trustee, as the case may be, for the payment of all such taxes required to be withheld. In the case of any distribution to be made in shares of common stock of the Company, the Participant shall have the right to have the Company or the trustee, as the case may be, retain shares having a then fair market value equal to the amount of tax required to be withheld in respect of such distribution.

**6.6** Notwithstanding any other provision of this Section 6, in the event of a "designated change of control" of the Company, all Stock Credits of Participants (or the person or persons designated as provided in Section 6.2) shall be changed following the date of such "designated change of control" to, and each Participant (or the person or persons designated as provided in Section 6.2) shall instead be credited as of such date with, their cash equivalent determined as follows: the number of shares of common stock of the Company represented by the Stock Credits of a Participant shall be multiplied by the greater of (i) the average price of such stock computed on a daily basis for the ninety (90) day calendar period immediately preceding said date of "designated change of control", or (ii) the highest price offered for shares of common stock of the Company by the corporation, person or group making a tender or exchange offer for shares of common stock of the Company that is comprised within a transaction constituting a "designated change of control" of the Company. Such Participant shall not be credited with any dividend equivalents with respect to such Stock Credits for the quarter of the Plan Year in which said Stock Credits shall be so changed, but the dollar amount distributable to him as aforesaid in lieu thereof shall instead be credited, in that Plan Year and subsequent Plan Years, with an interest equivalent to the same extent that Cash Credits would be so credited. For purposes of this Section 6.6 a "designated change of control" shall have the same meaning as set forth in Section 6.1(d) hereof.

**6.7** Notwithstanding any other provision of the Plan, a Participant or a beneficiary of a Participant may withdraw all or a portion of his account in the event of unforeseeable emergency. For this purpose, unforeseeable emergency means that funds are necessary in light of the immediate and heavy unexpected financial needs of the Participant or beneficiary. Any such distribution shall be limited to the amount required to meet any immediate financial need that is not reasonably available from other sources, all as determined by the Committee. Distribution shall be made in cash as soon as practicable following approval of the withdrawal request by the Committee. The Participant's deferrals shall be suspended and the Participant shall not be permitted to again defer until the beginning of the second Plan Year following the withdrawal. The Stock Credits shall be converted to cash based on the closing market price on the New York Stock Exchange on the nearest day of sale preceding the day such withdrawal request is approved by the Committee.

## **SECTION 7**

**7.1** No Participant or any other person shall have any interest in any fund or in any specific asset or assets of the Company by reason of any Cash or Stock Credits or interest or dividend equivalent credited to him hereunder, nor the right to exercise any of the rights or privileges of a stockholder with respect to any common stock credited to his Stock Credits, nor any right to receive any distribution under the Plan except as to the extent expressly provided in the Plan. Nothing in the Plan shall be deemed to give any officer or any employee of the Company or any division, subsidiary or affiliate of the Company any right to participate in the Plan, except in accordance with the provisions of the Plan.

**7.2** Neither the adoption nor the amendment of the Plan, nor any action of the Board of Directors of the Company or the Committee, nor any election to defer compensation hereunder, shall be held or construed to confer on any person any legal right to continue as an employee of the Company or any division, subsidiary or affiliate of the Company.

**7.3** No Participant shall have the right to assign, pledge or otherwise dispose of (except (i) by the exercise of a power of appointment designated as in Section 6 provided or (ii) as provided in Section 6) any Cash or Stock Credits nor shall the Participant's interest therein be subject to garnishment, attachment, transfer by operations of law, or any legal process; nor shall any person entitled to receive Cash or Stock Credits or remaining undistributed installments thereof, which become distributable after the death of a Participant in accordance with Section 6, have the right to assign or pledge any such credits or remaining undistributed installments.

**7.4** The Company shall establish and keep in effect as long as benefits are payable under the Plan, a Grantor (Rabbi) Trust, intended to meet the safe harbor provisions of RevProc 92-64, for the benefit of Participant's Stock Credits under the Plan (the "Trust"). The Company shall transfer to the Trust or cause the Trust to purchase shares of common stock of the Company from time to time which shall be held for the benefit of all Participants who have Stock Credits in such amounts so that the number of shares at the end of each calendar quarter shall equal the number of Stock Credits of all Participants outstanding under the Plan. Distribution of shares pursuant to Section 6.4 of the Plan shall be made directly from the Trust.

The Trust (i) shall be governed by and subject to the terms of a trust agreement entered into between the Company, as grantor, and the trustee and (ii) shall provide that the trustee shall promptly distribute to a Participant such shares of common stock as the Participant shall be entitled to pursuant to the Plan as directed by the Company. For purposes of making such distributions the trustee shall be entitled to rely upon the written directions of the Company.

## **SECTION 8**

**8.1** The administration of various aspects of the Plan by the Company shall be monitored by one or more Committees appointed from time to time by the Board of Directors of the Company to serve at the pleasure of the Board of Directors.

**8.2** As to each such Committee, three members of the Committee shall constitute a quorum for the transaction of business by such Committee. All action taken by the Committee at a meeting shall be by the vote of a majority of those present at such meeting, but any action may be taken by the Committee without a meeting upon written consent signed by all of the members of the Committee.

**8.3** All determinations of the Committee with respect to such Committee's responsibilities as designated



by the Board of Directors, including but without limitation the determination of the Committee as to any disputed question arising under the Plan, including all questions of construction and interpretation, shall be final, binding and conclusive upon all persons. Without limiting the generality of the foregoing, the determination of the Committee as to whether a Participant has terminated his service and the date thereof shall be final, binding and conclusive upon all persons.

**8.4** The acknowledgment by the Company or the Committee of an assignment or pledge made in accordance with provisions of Section 7.3 and any distribution by the Company to the assignee or pledgee shall be final, binding and conclusive upon all persons and shall relieve the Company and Committee of any liability or obligation to any other person or persons with respect to such distribution. As a condition to such acknowledgment or distribution the Company or the Committee may require the submission of such statements, opinions, orders, certificates, resolutions, or other instruments, or documents, consents or evidence, as the case may be, and may impose such requirements of conditions, as either of them, in its sole discretion, shall determine to be necessary or appropriate. Such acknowledgment or distribution shall in no event constitute an amendment, modification or waiver of any of the provisions of the Plan, or impose any obligation on the Company or Committee except as expressly provided by the Plan.

**8.5** The Company or the committee may consult with legal counsel, who may be counsel for the Company or other counsel, with respect to its obligation or duties hereunder, or with respect to any action or proceeding or any question of law, and shall not be liable with respect to any action taken or omitted by it in good faith pursuant to the advise of such counsel.

**8.6** Whenever the context so requires, words in the masculine include the feminine and in the feminine include the masculine.

## **SECTION 9**

**9.1** The Board of Directors of the Company may, in its absolute discretion, without notice, any time and from time to time, modify or amend, in whole or in part, any or all of the provisions of the Plan, or suspend or terminate it entirely, provided, that no such modification, amendment, suspension or termination may, without his consent, apply to or affect the payment or distribution to any Participant of any Cash or Stock Credits, credited to him for any Plan Year ended prior to the effective date of such modification, amendment, suspension or termination.

**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(s) 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. 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
  - d. 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 (the registrant's fourth fiscal quarter in the case of an annual

report) 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(s) 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.

June 8, 2006

/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(s) 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. 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
  - d. 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 (the registrant's fourth fiscal quarter in the case of an annual

report) 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(s) 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.

June 8, 2006

/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 April 29, 2006, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each 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: June 8, 2006

/s/ Terry J. Lundgren

Name: Terry J. Lundgren

Title: Chief Executive Officer

/s/ Karen M. Hoguet

Name: Karen M. Hoguet

Title: Chief Financial Officer