FEDERATED DEPARTMENT STORES INC /DE/
Form DEF 14A
April 16, 2003

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SCHEDULE 14A
(RULE 14A-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities

Exchange Act of 1934

Filed by the Registrant þ

Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement
o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
þ Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to Rule 14a-11(c) or Rule 14a-12

Federated Department Stores, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

þ No fee required.

o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

o Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

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FEDERATED DEPARTMENT STORES, INC.

7 West Seventh Street

Cincinnati, Ohio 45202
and
151 West 34th Street
New York, New York 10001

April 16, 2003

To the Stockholders:

You are cordially invited to attend the 2003 annual meeting of the stockholders of Federated Department Stores, Inc. The annual meeting will be held on Friday, May 16, 2003, at 11:00 a.m., Eastern Daylight Time, at Federated s offices located at 7 West Seventh Street, Cincinnati, Ohio 45202. The official notice of meeting, proxy statement and form of proxy are enclosed with this letter. The matters listed in the notice of meeting are described in the attached proxy statement.

The vote of every stockholder is important. Accordingly, we would appreciate it if you would cast your vote promptly by following the instructions on the enclosed proxy card.

Thank you for your cooperation and support of Federated.

Sincerely,

JAMES M. ZIMMERMAN
Chairman of the Board

**WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING,
PLEASE CAST YOUR VOTE PROMPTLY
BY FOLLOWING THE INSTRUCTIONS ON THE ENCLOSED PROXY CARD.**

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FEDERATED DEPARTMENT STORES, INC.

7 West Seventh Street, Cincinnati, Ohio 45202
and
151 West 34th Street, New York, New York 10001

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To the Stockholders:

Federated hereby gives notice that the annual meeting of its stockholders will be held at 11:00 a.m., Eastern Daylight Time, on Friday, May 16, 2003, at Federated s offices located at 7 West Seventh Street, Cincinnati, Ohio 45202. The items on the agenda for the annual meeting are:

1. To elect three Class III members of Federated s board of directors;

2. To ratify the appointment of KPMG LLP as Federated s independent accountants for the fiscal year ending January 31, 2004;

3. To act upon a stockholder proposal, if properly presented at the annual meeting, to take the necessary steps to adopt a system for the annual election of all of Federated s directors; and

4. To act upon such other business as may properly come before the annual meeting or any postponements or adjournments thereof.

Each of these matters is more fully described in the attached proxy statement. Stockholders of record at the close of business on April 4, 2003 are entitled to vote at the annual meeting or any postponements or adjournments thereof.

DENNIS J. BRODERICK
Secretary

April 16, 2003

PLEASE CAST YOUR VOTE BY FOLLOWING THE INSTRUCTIONS ON THE ENCLOSED PROXY CARD. IF YOU CHOOSE TO CAST YOUR VOTE BY COMPLETING THE PROXY CARD, PLEASE RETURN IT PROMPTLY IN THE ENCLOSED ENVELOPE, WHICH REQUIRES NO POSTAGE IF MAILED IN THE UNITED STATES.

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FEDERATED DEPARTMENT STORES, INC.

7 West Seventh Street, Cincinnati, Ohio 45202
and
151 West 34th Street, New York, New York 10001

PROXY STATEMENT

The board of directors of Federated (the Board) is furnishing this proxy statement in connection with its solicitation of proxies for use at the annual meeting of Federated s stockholders. The annual meeting will be held at 11:00 a.m., Eastern Daylight Time, on Friday, May 16, 2003, at Federated s offices located at 7 West Seventh Street, Cincinnati, Ohio 45202. The proxies received will be used at the annual meeting and at any postponements or adjournments of the annual meeting for the purposes set forth in the accompanying notice of meeting. This proxy statement, the notice of meeting and accompanying proxy are being mailed to stockholders on or about April 16, 2003.

Except where the context requires otherwise, the term Federated includes Federated and its subsidiaries.

GENERAL

The record date for the annual meeting is April 4, 2003. The holders of record of shares of common stock of Federated at the close of business on the record date are entitled to vote such shares at the annual meeting. As of the record date, 187,327,448 shares of common stock were outstanding. This number excludes shares held in the treasury of Federated or by subsidiaries of Federated. Each share of common stock, other than treasury shares and shares held by Federated s subsidiaries, is entitled to one vote on each of the matters listed in the notice of meeting.

The holders of a majority of the outstanding shares of common stock as of the record date will constitute a quorum for the transaction of business at the annual meeting. For purposes of determining whether a quorum exists, abstentions and broker non-votes will be included in determining the number of shares present or represented at the annual meeting. However, with respect to any matter brought to a vote at the annual meeting, abstentions and broker non-votes will be treated as shares not voted for purposes of determining whether the requisite vote has been obtained. In order to obtain approval of any matter brought to a vote at the annual meeting, the affirmative vote of the holders of a majority (or, in the case of the election of any nominee as a director, a plurality) of the shares of common stock represented at the annual meeting and actually voted is required. Consequently, abstentions and broker non-votes will have no effect on the outcome of the vote on any such matter. If the persons present or represented by proxy at the annual meeting constitute the holders of less than a majority of the outstanding shares of common stock as of the record date, the annual meeting may be adjourned to a subsequent date for the purpose of obtaining a quorum.

The Board has adopted a policy under which all voting materials that identify the votes of specific stockholders will be kept confidential and will not be disclosed to officers, directors or employees of Federated or third parties except as described below. Voting materials may be disclosed in any of the following circumstances:

if required by applicable law;

to persons engaged in the receipt, counting, tabulation or solicitation of proxies who have agreed to maintain stockholder confidentiality as provided in the policy;

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in those instances in which stockholders write comments on their proxy cards or otherwise consent to the disclosure of their vote to Federated s management;

in the event of a proxy contest or a solicitation of proxies in opposition to the voting recommendations of the Board;

in respect of a stockholder proposal that Federated s Board Organization and Corporate Governance Committee (the BOCG Committee), after having allowed the proponent of the proposal an opportunity to present its views, determines is not in the best interests of Federated and its stockholders; and

in the event that representatives of Federated determine in good faith that a bona fide dispute exists as to the authenticity or tabulation of voting materials.

The policy described above will apply to the annual meeting.

All shares of common stock represented at the annual meeting by proxies properly submitted prior to or at the annual meeting will be voted at the annual meeting in accordance with the instructions on the proxies, unless such proxies previously have been revoked. If no instructions are indicated, such shares will be voted FOR the nominees for director identified below, FOR the ratification of the appointment of Federated s independent accountants, and AGAINST the stockholder proposal to take the necessary steps to adopt a system for the annual election of all of Federated s directors.

A stockholder may revoke a proxy by submitting to the Secretary of Federated evidence of such revocation or a subsequent proxy authorized by such stockholder or by voting in person at the annual meeting. Attendance at the annual meeting will not, in itself, constitute revocation of a proxy.

STOCK OWNERSHIP

Certain Beneficial Owners. The following table sets forth information as to the beneficial ownership of each person known to Federated to own more than 5% of Federated s outstanding common stock.

	Name and Address	Number of Shares	Percent of Class
1.	AXA Financial, Inc. (AXA Financial) 1290 Avenue of the Americas New York, NY 10104	16,881,264	8.90%
2.	Barclays Capital Securities, Ltd. Barclays Private Bank and Trust (Jersey) Limited Barclays Global Investors, N.A. Barclays Global Fund Advisors Barclays Global Investors, Ltd. Barclays Life Assurance Company, Ltd. Barclays Trust and Banking Company (Japan), Ltd. (collectively, Barclays) 45 Fremont Street San Francisco, CA 94105	14,238,655	7.49%

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1. According to information set forth in a Schedule 13G/ A, dated February 12, 2003 (the AXA Financial Schedule 13G), filed with the Securities and Exchange Commission (the SEC) by AXA Financial, as of December 31, 2002, AXA Financial s affiliates were the beneficial owners of 16,881,264 shares of common stock (approximately 8.9% of the total number of shares of common stock outstanding). According to the AXA Financial Schedule 13G, (a) 16,757,264 of such shares were beneficially owned by Alliance Capital Management L.P. (Alliance), a majority owned subsidiary of AXA Financial, (b) 4,800 of such shares were beneficially owned by The Equitable Life Assurance Society of the United States (Equitable), a wholly owned subsidiary of AXA Financial, and (c) 119,200 of such shares were beneficially owned by AXA Rosenberg Investment Management LLC (AXA Rosenberg), an affiliate of AXA Financial and a majority owned indirect subsidiary of AXA. According to the AXA Financial Schedule 13G:

Alliance has (i) sole power to vote 9,472,809 shares described in clause (a) above, (ii) shared power to vote 1,434,784 of such shares, and (iii) sole power to dispose of 16,757,264 of such shares,

Equitable has sole power to dispose of 4,800 shares described in clause (b), but has no power to vote such shares, and

AXA Rosenberg has (i) sole power to vote 70,600 shares described in clause (c) above, and (ii) shared power to dispose of 119,200 of such shares.

2. According to the information set forth in a Schedule 13G, dated February 10, 2003 (the Barclays Schedule 13G), and filed with the SEC on February 12, 2003 by Barclays, Barclays was the beneficial owner of 12,813,096 shares of common stock (approximately 6.73% of the total number of shares outstanding). According to the Barclays Schedule 13G, (a) 11,880,624 of such shares (approximately 6.25% of the total number of shares of common stock outstanding) were beneficially owned by Barclays Global Investors, N.A. (BGI), (b) 744,342 of such shares (approximately 0.39% of the total number of shares of common stock outstanding) were beneficially owned by Barclays Global Fund Advisors (BGFA), (c) 1,463,526 of such shares (approximately 0.70% of the total number of shares of common stock outstanding) were beneficially owned by Barclays Global Investors, LTD. (BGIL), (d) 850 of such shares (approximately 0.00% of the total number of shares of common stock outstanding) were beneficially owned by Barclays Private Bank and Trust (Jersey) Limited (BPBT), (e) 4,715 of such shares (approximately 0.00% of the total number of shares of common stock outstanding) were beneficially owned by Barclays Capital Securities, Limited (BCSL), (f) 6,670 of such shares (approximately 0.00% of the total number of shares of common stock outstanding) were beneficially owned by Barclays Life Assurance Company, Ltd. (BLAC), and (g) 137,928 of such shares (approximately 0.07% of the total number of shares of common stock outstanding) were beneficially owned by Barclays Trust and Banking Company (Japan), Ltd.(BTBC). According to the Barclays Schedule 13G:

BGI has sole power to vote and the sole power to dispose of 11,880,624 shares described in clause (a) above,

BGFA has sole power to vote and the sole power to dispose of 744,342 shares described in clause (b) above,

BGIL has sole power to vote and the sole power to dispose of 37,967 shares described in clause (c) above,

BPBT has sole power to vote and the sole power to dispose of 850 shares described in clause (d) above,

BCSL has sole power to vote and the sole power to dispose of 4,715 shares described in clause (e) above,

BLAC has sole power to vote and the sole power to dispose of 6,670 shares described in clause (f) above, and

BTBC has sole power to vote and the sole power to dispose of 137,928 shares described in clause (g) above.

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Stock Ownership of Directors and Executive Officers. The following table sets forth the shares of common stock beneficially owned (or deemed to be beneficially owned pursuant to the rules of the SEC) as of April 4, 2003 by each director of Federated, by each of the Named Executives (as defined below) and by directors and executive officers of Federated as a group. The business address of each of the individuals named in the table is 7 West Seventh Street, Cincinnati, Ohio 45202.

Name	Number of Shares (1)	Number of Shares (2)	Percent of Class
Meyer Feldberg	21,558	18,608	less than 1%
Earl G. Graves, Sr.	25,126	23,715	less than 1%
Sara Levinson	17,875	16,875	less than 1%
Terry J. Lundgren	854,533	700,000	less than 1%
Joseph Neubauer	32,615	25,715	less than 1%
Joseph A. Pichler	16,775	13,375	less than 1%
Ronald W. Tysoe	712,491	596,000	less than 1%
Karl M. von der Heyden	32,415	23,715	less than 1%
Craig E. Weatherup	20,448	17,448	less than 1%
Marna C. Whittington	24,177	19,579	less than 1%
James M. Zimmerman	1,401,965	1,257,000	less than 1%
Thomas G. Cody	326,497	285,000	less than 1%
Karen M. Hoguet	184,932	149,250	less than 1%
All directors and executive officers as a group	4,420,357	3,810,980	2.4%

(1) Aggregate number of shares of common stock currently held and which may be acquired within 60 days after April 4, 2003 through the exercise of options granted under the 1992 Executive Equity Incentive Plan, as amended, and the 1995 Executive Equity Incentive Plan, as amended (the 1995 Equity Plan and, together with the 1992 Executive Equity Incentive Plan, as amended, the Equity Plans).

(2) Number of shares of common stock which may be acquired within 60 days after April 4, 2003 through the exercise of options granted under the Equity Plans.

Securities Authorized for Issuance Under Equity Compensation Plans. The following table presents certain aggregate information, as of February 1, 2003, with respect to (i) the Equity Plans (on the line captioned Equity compensation plans approved by security holders) and (ii) outstanding options that were granted to certain executives of Broadway and Fingerhut or assumed by Federated, in connection with Federated s acquisitions of

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Broadway and Fingerhut in 1995 and 1999, respectively (on the line captioned Equity compensation plans not approved by security holders).

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights ($) (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	27,695,108	38.40	5,304,906
Equity compensation plans not approved by security holders	77,212	29.68	0

The foregoing table does not reflect shares of restricted stock previously issued or remaining available for issuance under the 1995 Equity Plan. As of February 1, 2003, there were 345,036 shares of restricted stock outstanding that remained subject to possible forfeiture and 105,291 shares of common stock available for future issuance as restricted stock under the 1995 Equity Plan.

The foregoing table does not reflect (i) stock credits issued as long-term incentive awards under the 1992 Incentive Bonus Plan (as amended, the 1992 Bonus Plan), which have been approved by Federated s stockholders, or (ii) stock credits issued under Federated s Executive Deferred Compensation Plan, the non-employee directors compensation program and the non-employee directors deferred compensation plan, which have not been approved by Federated s stockholders. Pursuant to amendments to the 1992 Bonus Plan, long-term incentive bonuses formerly payable in cash are now payable in the form of stock credits, except that any payout that Mr. Zimmerman receives for the fiscal 2001 2003 performance period will be paid 50% in credits representing the right to receive shares of common stock (with a 20% premium being added to the amount paid in such credits), with the balance being payable in cash. Pursuant to the Executive Deferred Compensation Plan, eligible executives may elect to receive a portion of their cash compensation in the form of stock credits. Pursuant to the non-employee directors compensation program, Federated directors are required to receive 50% of their annual fees in the form of stock credits. In addition, pursuant to the non-employee directors deferred compensation plan, directors may elect to receive all or a portion of their remaining compensation in the form of stock credits.

Under the plans described in the immediately preceding paragraph, entitlements due to participants are expressed as dollar amounts and then converted to stock credits in amounts (i) equal to the number of shares of common stock purchased by the applicable plan at current market prices with the cash contributed to the Plan that otherwise would have been payable to the participant currently (in the case of the Executive Deferred Compensation Plan, the non-employee directors compensation program and the non-employee directors deferred compensation plan) or (ii) equal to the number of shares of common stock that could be purchased at current market prices as of specified dates with 120% of the applicable bonus amount (in the case of the 1992 Incentive Bonus Plan). In general, each stock credit entitles the holder to receive one share of common stock three years after the issuance of the stock credit, or, in the case of the Executive Deferred Compensation Plan and the non-employee directors deferred compensation plan, upon the termination of the holder s employment or service with Federated, together with amounts equal to any dividends paid on one share of common stock. No specific number of shares are authorized for issuance under the deferred compensation plans or the 1992 Bonus Plan.

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ITEM 1 ELECTION OF DIRECTORS

Federated s Certificate of Incorporation (the Certificate of Incorporation) and By-Laws (the By-Laws) provide that the directors of Federated are to be classified into three classes, with the directors in each class serving for three-year terms and until their successors are elected.

In accordance with the recommendation of its BOCG Committee, the Board has nominated Earl G. Graves, Sr., Craig E. Weatherup and James M. Zimmerman, each of whom is currently a member of the Board, for election as Class III Directors. If elected, such nominees will serve for a three-year term to expire at Federated s annual meeting of stockholders in 2006 or until their successors are duly elected and qualified, except Mr. Zimmerman who is expected to resign from the Board in connection with his retirement from his position as Chairman of the Board on February 1, 2004. Information regarding the foregoing nominees, as well as the other persons who are expected to serve on the Board following the annual meeting, is set forth below.

The Board has no reason to believe that any of the nominees will not serve if elected. However, if any nominee should subsequently become unavailable to serve as a director, the persons named as proxies may, in their discretion, vote for a substitute nominee designated by the Board or, alternatively, the Board may reduce the number of directors to be elected at the annual meeting.

The Board recommends that stockholders vote FOR the election of the nominees. Proxies solicited by the Board will be so voted except where authority has been withheld.

Nominees for Election as Class III Directors Term Expires at the 2006 annual meeting

EARL G. GRAVES, SR.

Mr. Graves, age 68, has been Chairman and Chief Executive Officer of Earl G. Graves, Ltd., a multi-faceted communications company, since 1970, and is the Publisher and Chief Executive Officer of Black Enterprise magazine, which he founded. From 1990 until 1998, Mr. Graves was Chairman and Chief Executive Officer of Pepsi-Cola of Washington, D.C., L.P., a Pepsi-Cola bottling franchise. Since 1998, Mr. Graves has been Chairman of the Pepsi-Cola Ethnic Advisory Board. Mr. Graves is also a member of the boards of directors of Aetna Inc., AMR Corporation, DaimlerChrysler Corporation and Rohm & Haas Company. He was, prior to its dissolution, a member of the Executive Committee and is a member of the Audit Review, BOCG and Public Policy Committees of the Board. Mr. Graves has been a director since 1994.

CRAIG E. WEATHERUP

Mr. Weatherup, age 57, was Chairman and Chief Executive Officer of The Pepsi Bottling Group, Inc. from November 1998 until January 2003. From July 1996 until October 1998, he was the Chairman and Chief Executive Officer of Pepsi-Cola Company. Mr. Weatherup is also a member of the board of directors of The Pepsi Bottling Group, Inc. and Starbucks Corporation. He was, prior to its dissolution, a member of the Executive Committee and is a member of the BOCG, Compensation and Public Policy Committees of the Board. Mr. Weatherup has been a director since August 1996.

JAMES M. ZIMMERMAN

Mr. Zimmerman, age 59, has been Chairman of the Board since May 1997, and Chairman of the Board and Chief Executive Officer of Federated from May 1997 until February 26, 2003. From May 1988 until May 1997, he was the President and Chief Operating Officer of Federated. He is also a member of the boards of directors of The Chubb Corporation, H.J. Heinz Company, Goodyear Tire and Rubber Co. and Convergys Corporation.

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Mr. Zimmerman was, prior to its dissolution, a member of the Executive Committee and is a member of the Finance Committee of the Board. Mr. Zimmerman has been a director since 1988.

Class I Directors Term Expires at the 2004 annual meeting

SARA LEVINSON

Ms. Levinson, age 52, has been Chairman of Club Mom since May 2000 and President, Women s Group Rodale, Inc. since October 2002. Prior to October 2002, Ms. Levinson was Chief Executive Officer of Club Mom since May 2000. Prior to that she was President of NFL Properties, Inc. since September 1994. Ms. Levinson is also a member of the board of directors of Harley Davidson, Inc. Ms. Levinson is a member of the Audit Review and Public Policy Committees of the Board. Ms. Levinson has been a director since May 1997.

JOSEPH NEUBAUER

Mr. Neubauer, age 61, has been Chief Executive Officer of ARAMARK Corporation since 1983 and Chairman since 1984; he was President of ARAMARK Corporation from 1983 until 1997. He is also a member of the boards of directors of ARAMARK Corporation, Verizon Communications, Inc., Wachovia Corporation and CIGNA Corporation. Mr. Neubauer is a member of the Audit Review, BOCG, Compensation and Finance Committees of the Board. Mr. Neubauer has been a director since 1992.

JOSEPH A. PICHLER

Mr. Pichler, age 63, has been Chairman and Chief Executive Officer of The Kroger Co. since June 1990. He is also a member of the boards of directors of The Kroger Co. and Milacron, Inc. Mr. Pichler is a member of the BOCG and Compensation Committees and the Section 162(m) Subcommittee of the Board. Mr. Pichler has been a director since December 1997.

KARL M. VON DER HEYDEN

Mr. von der Heyden, age 66, was Vice Chairman of the Board of Directors of PepsiCo, Inc. from September 1996 to January 2001 and was also Chief Financial Officer of PepsiCo, Inc. from September 1996 until March 1998. He is also a member of the boards of directors of AstraZeneca PLC, Exult, Inc. and ARAMARK Corp. Mr. von der Heyden was, prior to its dissolution, a member of the Executive Committee and is a member of the Audit Review, Finance and Public Policy Committees of the Board. Mr. von der Heyden has been a director since 1992.

Class II Directors Term Expires at the 2005 annual meeting

MEYER FELDBERG

Professor Feldberg, age 61, has been Dean of the Columbia Business School at Columbia University since 1989. He is also a member of the boards of directors of Revlon, Inc., Primedia, Inc., UBS Funds, SAPPI Limited and Select Medical Corporation. Professor Feldberg was, prior to its dissolution, a member of the Executive Committee and is a member of the BOCG, Compensation and Public Policy Committees and the Section 162(m) Subcommittee of the Board. Professor Feldberg has been a director since 1992.

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TERRY J. LUNDGREN

Mr. Lundgren, age 51, has been President and Chief Executive Officer of Federated since February 26, 2003; prior thereto he served as the President/ Chief Operating Officer and Chief Merchandising Officer of Federated since April 15, 2002. From May 1997 until April 15, 2002, he was President and Chief Merchandising Officer of Federated. From February 1994 until February 19, 1998, he was the Chairman of the Federated Merchandising Group, a division of Federated. Mr. Lundgren is a member of the Public Policy Committee of the Board. Mr. Lundgren has been a director since May 1997.

RONALD W. TYSOE

Mr. Tysoe, age 50, has been Vice Chairman, Finance and Real Estate of Federated since April 1990. From April 1990 until October 1997, Mr. Tysoe also served as the Chief Financial Officer of Federated. Mr. Tysoe is also a member of the boards of directors of E.W. Scripps Company and Great American Financial Resources, Inc. Mr. Tysoe is a member of the Finance Committee of the Board. Mr. Tysoe has been a director since 1988.

MARNA C. WHITTINGTON

Dr. Whittington, age 55, has been President of Nicholas Applegate Capital Management since 2001 and Chief Operating Officer of Allianz Dresdner Asset Management, the parent of Nicholas Applegate Capital Management, since 2002. From 1996 until 2001 she was Chief Operating Officer of Morgan Stanley Dean Witter Investment Management. Dr. Whittington is also a member of the board of directors of Rohm & Haas Company. Dr. Whittington was, prior to its dissolution, a member of the Executive Committee and is a member of the Audit Review, BOCG and Finance Committees of the Board. Dr. Whittington has been a director since 1993.

FURTHER INFORMATION CONCERNING THE BOARD OF DIRECTORS

Attendance at Meetings

The Board held seven meetings during the fiscal year ended February 1, 2003 (fiscal 2002). No director attended fewer than 75%, in the aggregate, of the total number of meetings of the Board and Board Committees on which such director served.

Committees of the Board

The following standing committees of the Board were in existence throughout 2002: the Executive Committee, the Finance Committee, the Public Policy Committee, the Audit Review Committee, the BOCG Committee, the Compensation Committee and the Section 162(m) Subcommittee. On the recommendation of the BOCG Committee, the Board resolved to dissolve the Executive Committee, which ceased to exist as of March 28, 2003. Each of the other standing committees will be reconstituted following the annual meeting. The By-Laws require that the Audit Review, BOCG and Compensation Committees be composed solely of non-employee directors and that a majority of the members of the Executive and Finance Committees be non-employee directors. The By-Laws define non-employee director, in general, to mean a director of Federated who is not a full-time employee of Federated or any of its subsidiaries. The By-Laws further require that all of the members of the Audit Review, BOCG and Compensation Committees, and a majority of the members of the Finance and Public Policy Committees and each other directorate committee that the Board may from time to time establish, be independent directors. However, the By-Laws permit a majority of the independent directors then serving as Board members to determine in a specific instance that it would be in the best interests of

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Federated and its stockholders that the By-Laws not operate to preclude the service of one or more individuals on one or more of such committees. The By-Laws define independent director, in general, to mean a director of Federated who:

- is not (and has not been within the preceding 60 months) an employee of Federated or any of its subsidiaries;
- is not (and has not been within the preceding 60 months) an executive officer, partner or principal in or of any corporation or other entity that is or was a paid advisor, consultant or provider of professional services to, or a substantial supplier of, Federated or any of its subsidiaries;
- is not a party to any contract pursuant to which the director provides personal services (other than as a director) to Federated or any of its subsidiaries;
- is not employed by an organization that received, within the preceding 60 months, grants or endowments from Federated or any of its subsidiaries in excess of $250,000 in any fiscal year of Federated;
- is not a relative of any other director or executive officer of Federated;
- is not a party to any agreement binding him or her to vote, as a stockholder of Federated, in accordance with the recommendations of the Board; and
- is not a director of any corporation or other entity (other than Federated) of which Federated s Chairman or Chief Executive Officer is also a director.

The Board believes that, except for Messrs. Zimmerman, Lundgren and Tysoe, who are members of the Board and also senior executives of Federated, the remaining members of the Board are independent directors within the meaning of the foregoing definition.

Executive Committee. During fiscal 2002, the Executive Committee was composed of Dr. Whittington and Messrs. Feldberg, Graves, von der Heyden, Weatherup and Zimmerman. This Committee had all authority, consistent with the Delaware General Corporation Law, granted to it by the Board. Accordingly, the Executive Committee generally was empowered to exercise all of the power and authority of the Board in the oversight of the management of the business and affairs of Federated. However, the Executive Committee did not have the power to amend the By-Laws or the Certificate of Incorporation (except, to the extent authorized by a resolution of the Board, to fix the designations, preferences and other terms of any preferred stock of Federated), adopt an agreement of merger and consolidation, authorize the issuance of stock, declare a dividend or recommend to the stockholders of Federated the sale, lease or exchange of all or substantially all of Federated s assets, a dissolution of Federated or a revocation of a dissolution. The Executive Committee met once during fiscal 2002. The Executive Committee ceased to exist as of March 28, 2003.

Finance Committee. The Finance Committee is presently composed of Dr. Whittington and Messrs. Neubauer, Tysoe, von der Heyden and Zimmerman. This Committee reviews with the appropriate officers of Federated and reports to the Board (or to the Executive Committee) on:

- the financial considerations relating to acquisitions and dispositions of businesses and operations involving projected costs or income in excess of $25 million;
- potential transactions affecting Federated s capital structure, such as financings, refinancings and the issuance, redemption or repurchase of Federated s debt or equity securities;

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potential changes in the financial policy or structure of Federated which could have a material financial impact on Federated; and

capital projects and other financial commitments in excess of $25 million.

The Finance Committee met three times during fiscal 2002.

Public Policy Committee. The Public Policy Committee is presently composed of Ms. Levinson and Messrs. Feldberg, Graves, Lundgren, von der Heyden and Weatherup. This Committee establishes, when necessary or appropriate, policies involving Federated s role as a corporate citizen, reviews, evaluates and monitors the policies, programs and practices in public policy areas, maintains an awareness of public affairs developments and trends, and reviews and makes recommendations to the Board on stockholder proposals relating to various matters. The Public Policy Committee met twice during fiscal 2002.

Audit Review Committee. The Audit Review Committee is presently composed of Ms. Levinson, Dr. Whittington and Messrs. Graves, Neubauer and von der Heyden. All members of the Audit Review Committee are independent, as defined in Section 303.01(B)(2)(a) and (3) of the New York Stock Exchange s listing standards. This Committee reviews the professional services provided by Federated s independent accountants and the independence of such firm from the management of Federated. This Committee also reviews the scope of the audit by Federated s independent accountants, whether the provision of non-audit services by Federated s independent accountants is compatible with the maintenance of their independence, the annual financial statements of Federated, Federated s systems of internal accounting controls, material legal developments relating to, and legal compliance policies and procedures of, Federated and such other matters with respect to the legal, accounting, auditing and financial reporting practices and procedures of Federated as it may find appropriate or as may be brought to its attention, and meets from time to time with members of Federated s internal audit staff. See Audit Review Committee Report for further information regarding the Audit Review Committee s review. The Audit Review Committee met three times during fiscal 2002.

Board Organization and Corporate Governance Committee. The BOCG Committee is presently composed of Dr. Whittington and Messrs. Feldberg, Graves, Neubauer, Pichler and Weatherup. This Committee considers and recommends criteria for the selection of nominees for election as directors of Federated and from time to time may select candidates for director for recommendation to the full Board. This Committee also considers and makes recommendations with respect to (a) such proposals as may from time to time be made in accordance with Rule 14a-8 under the Securities Exchange Act of 1934, as amended, by stockholders of Federated, and (b) such other matters as may from time to time be presented for consideration of the Board relating to the rights of stockholders and the role of the Board in respect of the direction of the management of the business and affairs of Federated (other than, as to stockholder rights, in respect of the conduct of Federated s ordinary business operations or in the context of an extraordinary transaction involving Federated or any of its subsidiaries or any securities of Federated or its subsidiaries). The full Board may also from time to time select such director candidates and in all events will act in respect of (x) the filling of any vacancies on the Board, (y) the recommendation of candidates for nomination for election as director by the stockholders of Federated, and (z) the composition of all Board committees. The BOCG Committee met five times during fiscal 2002.

The BOCG Committee will consider nominees for directors recommended by stockholders of Federated. Stockholders wishing to make such recommendations should write to the Board Organization and Corporate Governance Committee, c/o Dennis J. Broderick, Secretary, Federated Department Stores, Inc., 7 West Seventh Street, Cincinnati, Ohio 45202. Persons making submissions should include the full name and address of the recommended nominee, a description of the proposed nominee s qualifications and other relevant biographical

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information. See Director Nomination Procedures for a discussion of nomination procedures under the By-Laws.

Compensation Committee. The Compensation Committee is presently composed of Messrs. Feldberg, Neubauer, Pichler and Weatherup. This Committee reviews executive salaries, administers the bonus, incentive and stock option plans of Federated and approves the salaries and other benefits of the executive officers of Federated. In addition, this Committee advises and consults with Federated s management regarding pension and other benefit plans and compensation policies and practices of Federated. The Compensation Committee met five times during fiscal 2002.

Section 162(m) Subcommittee. The Board has established a subcommittee of the Compensation Committee, presently composed of Messrs. Feldberg and Pichler (the Section 162(m) Subcommittee). The Section 162(m) Subcommittee is required to be composed solely of two or more members of the Compensation Committee who are outside directors within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended, and the regulations of the Internal Revenue Service relating thereto (collectively, Section 162(m)). The Section 162(m) Subcommittee takes all required actions under the Equity Plans and the 1992 Bonus Plan, and such other compensation plans, agreements or arrangements of Federated as may be specified by the Board from time to time, in each case with respect to such action as may be necessary under Section 162(m) in order to cause any compensation that is paid thereunder to a person who is, or is specified by the Compensation Committee as being reasonably likely to become, a covered employee within the meaning of Section 162(m) to qualify as performance based within the meaning of Section 162(m). The Section 162(m) Subcommittee met once during fiscal 2002.

Director Nomination Procedures

The By-Laws provide that nominations for election of directors by the stockholders will be made by the Board or by any stockholder entitled to vote in the election of directors generally. The By-Laws require that stockholders intending to nominate candidates for election as directors deliver written notice thereof to the Secretary of Federated not less than 60 days prior to the meeting of stockholders. However, in the event that the date of the meeting is not publicly announced by Federated by inclusion in a report filed with the SEC or furnished to stockholders, or by mail, press release or otherwise more than 75 days prior to the meeting, notice by the stockholder to be timely must be delivered to the Secretary of Federated not later than the close of business on the tenth day following the day on which such announcement of the date of the meeting was so communicated. The By-Laws further require, among other things, that the notice by the stockholder set forth certain information concerning such stockholder and the stockholder s nominees, including their names and addresses, a representation that the stockholder is entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice, the class and number of shares of Federated s stock owned or beneficially owned by such stockholder, a description of all arrangements or understandings between the stockholder and each nominee, such other information as would be required to be included in a proxy statement soliciting proxies for the election of the nominees of such stockholder, and the consent of each nominee to serve as a director of Federated if so elected. The chairman of the meeting may refuse to acknowledge the nomination of any person not made in compliance with these requirements. Similar procedures prescribed by the By-Laws are applicable to stockholders desiring to bring any other business before an annual meeting of the stockholders. See Stockholders Proposals Proposals for 2004 Annual Meeting.

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Director Compensation

Non-employee directors receive an annual base retainer fee in the amount of $30,000, and a fee of $1,250 for each Board or Board Committee meeting attended. In addition, each non-employee director who chairs a committee receives an annual fee of $5,000. Since January 1, 1999, the annual base retainer fee (including the fee payable to a committee chair) and the meeting fee payable to non-employee directors is being paid 50% (or such greater percentage, in ten percent increments, any individual director may have elected) in credits representing the right to receive shares of common stock, with the balance being paid in cash. Such stock credits will be settled in shares of common stock three years following the issuance of such stock credits (or at such later time as any individual director s service on the Board ends, if such individual director has elected to defer compensation under the directors deferred compensation plan).

Subject to the holding period described above for stock credits covering a portion of retainer and meeting fees, any non-employee director may defer all or a portion of those fees either as stock credits or cash credits under the directors deferred compensation plan until such director s service on the Board ends.

In connection with the termination of the retirement plan for non-employee directors described below, the 1995 Equity Plan was amended to make each non-employee director eligible to receive annual grants of options to purchase up to 3,500 shares of common stock. The 1995 Equity Plan was further amended to make each non-employee director eligible to receive, commencing with fiscal year 2001, annual grants of options to purchase up to 5,000 shares of common stock. Each non-employee director was granted an option to purchase 5,000 shares of common stock in respect of his or her service as such during fiscal 2002. Directors who are also full-time employees of Federated receive no additional compensation for service as directors.

Federated s retirement plan for non-employee directors was terminated on a prospective basis effective May 16, 1997 (the Plan Termination Date). As a result of such termination, persons who first become non-employee directors after the Plan Termination Date will not be entitled to receive any payment thereunder. Persons who were non-employee directors as of the Plan Termination Date will be entitled to receive retirement benefits accrued as of the Plan Termination Date. Subject to an overall limit in an amount equal to the aggregate retirement benefit accrued as of the Plan Termination Date (i.e., the product of $30,000 and the years of Board service prior to the Plan Termination Date), and the vesting requirements described below, persons who retire from service as non-employee directors after the Plan Termination Date will be entitled to receive an annual payment equal to $30,000, payable in monthly installments, commencing at age 60 (if such person s termination of Board service occurred prior to reaching age 60) and continuing for the lesser of such person s remaining life or a number of years equal to such person s years of Board service prior to the Plan Termination Date. Full vesting will occur for non-employee directors who reach age 60 while serving on the Board, irrespective of such person s years of Board service. Vesting will occur as follows for non-employee directors whose Board service terminates before the director reaches age 60: 50% vesting after five years of Board service and an additional 10% vesting for each year of Board service after five years. Board service following the Plan Termination Date will be given effect for purposes of the foregoing vesting requirements. There are no survivor benefits under the terms of the retirement plan.

Non-employee directors also receive executive discounts on merchandise purchased.

Certain Relationships and Related Transactions

Dr. Whittington, a director of Federated, is Chief Operating Officer of Allianz Dresdner Asset Management, which through its insurance affiliate, Allianz Insurance Company, has agreed to provide Federated during fiscal

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year 2003 portions of Federated s excess casualty insurance coverage at an aggregate premium cost of $390,000.

Compliance with Section 16(a) of the Securities Exchange of 1934

Section 16(a) of the Securities Exchange Act of 1934 (the Exchange Act) requires Federated s directors and executive officers, and certain persons who own more than 10% of the common stock outstanding, to file with the SEC and the New York Stock Exchange (the NYSE) initial reports of ownership and reports of changes in ownership of common stock. Executive officers, directors and greater than 10% stockholders are required by SEC regulation to furnish Federated with copies of all Section 16(a) reports they file. See Stock Ownership Certain Beneficial Owners.

To Federated s knowledge, based solely on a review of the copies of reports furnished to Federated and written representations signed by all directors and executive officers that no other reports were required with respect to their beneficial ownership of common stock during fiscal 2002, the directors and executive officers and all beneficial owners of more than 10% of the common stock outstanding complied with all applicable filing requirements under Section 16(a) of the Exchange Act with respect to their beneficial ownership of common stock during fiscal 2002, except that a Form 4 report to reflect the transfer by Ronald W. Tysoe out of the investment fund that invests in common stock under Federated s savings plan was filed late.

ITEM 2 APPOINTMENT OF INDEPENDENT ACCOUNTANTS

The Board, upon the recommendation of the Audit Review Committee, has appointed the firm of KPMG LLP independent public accountants, to audit the books, records and accounts of Federated for the fiscal year ending January 31, 2004. The Board s appointment is subject to ratification by Federated s stockholders. KPMG LLP and its predecessors have served as independent accountants for Federated since 1988, and are considered well qualified. Representatives of KPMG LLP are expected to be present at the annual meeting and will have the opportunity to make a statement if they desire to do so. It is also expected that they will be available to respond to appropriate questions.

Fees Paid to Independent Accountants

The table below summarizes the fees paid to KPMG LLP:

Year	Audit	Audit Related	Tax	All Other	Total
2002	$2,381,816	$1,424,800	$120,650	$190,539	$4,117,805
2001	2,718,553	892,455	140,557	0	3,751,565

Audit fees represent fees for professional services rendered for the audit of Federated s annual financial statements and the reviews of the interim financial statements included in Federated s Forms 10-Q.

Audit related fees represent professional services principally related to the audits of financial statements of employee benefit plans, audits of financial statements of certain subsidiaries and certain subsidiaries that were sold and certain agreed upon procedures reports.

Tax fees represent professional services related to tax compliance and consulting services.

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All other fees represent professional services other than those covered above. Included in this are fees related to consulting services on two specific projects.

The Audit Review Committee has considered the nature and extent of non-audit services provided by KPMG LLP and has determined that the provision of such services is compatible with maintaining auditor independence.

The Board recommends that the stockholders vote FOR such ratification. Proxies solicited by the Board will be so voted unless stockholders specify in their proxies a contrary choice.

ITEM 3 STOCKHOLDER PROPOSAL SEEKING ANNUAL ELECTION OF DIRECTORS

Federated has been notified by Mrs. Evelyn Y. Davis, Editor, Highlights and Lowlights, Watergate Office Building, 2600 Virginia Avenue, N.W., Suite 215, Washington, DC 20037, who is the beneficial owner of 200 shares of common stock, that she intends to submit the following proposal at the annual meeting:

RESOLVED: That the stockholders of Federated recommend that the Board of Directors take the necessary steps to reinstate the election of directors ANNUALLY, instead of the stagger system which was recently adopted.

REASONS: Until recently, directors of Federated were elected annually by all shareholders.

The proponent has submitted the following statement in support of the proposal, for which Federated and the Board accept no responsibility:

The great majority of New York Stock Exchange listed corporations elect all their directors each year. This insures that ALL directors will be more accountable to ALL shareholders each year and to a certain extent prevents the self-perpetuation of the Board. Last year the owners of 136,943,579 shares, representing OVER 88.1% of shares voting, voted FOR this proposal. Have Your Board Adopt This Proposal NOW!!!!!!!!!!

If you AGREE, please mark your proxy FOR this resolution.

For the reasons discussed below, the Board recommends that stockholders vote AGAINST the foregoing proposal.

Federated s Certificate of Incorporation has provided for classified director terms for many years, including prior to the hostile takeover of Federated in 1988 that resulted in its bankruptcy in 1990. According to information provided to Federated by its advisors, approximately 62.0% of the companies included in the S&P 500 have classified boards of directors.

The Board believes that the classification of director terms provides significant benefits to Federated s stockholders. A classified Board provides for continuity and stability and enhances the Board s ability to implement its long-term strategy and to focus on long-term performance. Because a classified Board makes it more difficult for a substantial shareholder to change abruptly the entire Board without the approval, or at least the cooperation, of the incumbent Board, it enhances the ability of the Board to consider whether initiatives proposed by such a substantial shareholder are in the best interests of Federated and all of its shareholders. A classified Board permits a more orderly process for directors to consider, in the exercise of their fiduciary responsibilities, any and all alternatives to maximize shareholder value.

The Board also believes that it has in place procedures, including a policy requiring retirement at age 70 and a policy requiring that any director whose principal occupation changes submit his or her resignation, to provide

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assurance that its composition is appropriate. The Board is presently comprised of eleven members, all but three of whom are independent directors (as defined in Federated s By-Laws) and are believed by the Board to be free of interests or relationships that could reasonably be expected to compromise the independent discharge of their duties. Finally, the Board operates in substantial measure through seven directorate committees, four of which (the Audit Review, BOCG and Compensation Committee and the Section 162(m) Subcommittee) are composed solely of independent directors.

For the reasons set forth above, the Board recommends a vote AGAINST this proposal. Proxies solicited by the Board will be so voted unless stockholders specify in their proxies a contrary choice.

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EXECUTIVE COMPENSATION

Three-Year Compensation Summary

The following table summarizes the compensation of the five most highly compensated executive officers of Federated as of February 1, 2003 (the Named Executives) for Federated s last three fiscal years for services rendered in all capacities to Federated and its subsidiaries.

SUMMARY COMPENSATION TABLE

		Annual Compensation			Long-Term Compensation			
					Award(s)		Payouts	
Name and Principal Position	Year	Salary($)	Bonus($)	Other Annual Compen-sation($)	Restricted Stock Awards ($)(1)	Securities Underlying Options/ SARs(#)	LTIP Payouts ($)(2)	All Other Compen-sation ($)(3)
J. Zimmerman	2002	1,250,000	1,330,500	114,100(5)	0	0	0	6,029
Chairman from	2001	1,250,000	450,000(4)	73,842	0	174,419	0	2,833
February 26, 2003	2000	1,250,000	0	96,135	1,508,000	0	174,680	5,558
T. Lundgren	2002	1,100,000	837,300	60,413(6)	0	250,000	0	6,029
President/Chief Executive	2001	1,100,000	350,000(4)	82,492	2,167,776	153,488	0	2,833
Officer from February 26, 2003	2000	1,083,333	0	89,201	2,600,000	300,000	96,800	5,558
R. Tysoe	2002	825,000	439,100	125,419(7)	0	50,000	0	4,019
Vice Chair	2001	825,000	135,000(4)	96,738	1,625,822	165,116	0	2,833
	2000	825,000	0	138,800	280,000	50,000	54,450	3,705
T. Cody	2002	730,000	388,500	118,740(8)	0	50,000	0	6,029
Vice Chair from	2001	730,000	120,000(4)	161,933	1,438,589	151,860	0	2,833
February 26, 2003	2000	730,000	0	117,208	200,000	50,000	50,050	5,558
K. Hoguet	2002	570,833	319,300	55,610(9)	0	30,000	0	6,029
Senior Vice President and	2001	533,333	120,000(4)	55,933	1,083,867	99,744	0	2,833
Chief Financial Officer	2000	491,667	0	85,045	0	23,000	29,040	5,558

(1) At February 1, 2003, the aggregate number of shares of restricted stock held by each of the Named Executives and the aggregate value thereof (based on the closing market price of the common stock on January 31, 2003) were as follows: Mr. Zimmerman: 43,850 shares, $1,140,977; Mr. Lundgren: 83,663 shares, $2,176,911; Mr. Tysoe: 41,872 shares, $1,089,509; Mr. Cody: 36,453 shares, $948,507; and Mrs. Hoguet: 25,581 shares, $665,618. Shares of restricted stock are treated as common stock for purposes of dividends and voting.

(2) The payments to the Named Executives for fiscal year 2000 were made pursuant to Federated s long-term incentive plans in respect of the period encompassing Federated s fiscal years 1998 through 2000. The payments to each Named Executive for fiscal year 2000 include cash and stock credits representing the right to receive, three years following the issuance of such stock credits, shares of common stock on a one for one basis. See Compensation Committee Report on Executive Compensation Specific Compensation Practices Long-Term Incentive, for further information on Federated s long-term incentive plans. For the 1999-2001 and 2000- 2002 performance periods there were no payouts to any of the Named Executives.

(3) Consists of contributions under Federated s Profit Sharing 401(k) Investment Plan. See Retirement Program.

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(4) The payment to the Named Executives for fiscal year 2001 represents a performance award outside the 1992 Bonus Plan in recognition of their contributions during fiscal year 2001 to Federated s cash flow performance, fourth quarter recovery and strategic progress.

(5) For fiscal 2002, the amount shown includes $28,800 incurred for travel in fiscal 2002 that was a special award in recognition of Federated s fiscal year 1999 performance and the applicable tax gross up amount.

(6) For fiscal 2002, the amount shown includes $16,206 for executive discount on merchandise purchases and the applicable tax gross up amount.

(7) For fiscal 2002, the amount shown includes $47,997 for use of the company aircraft and the applicable tax gross up amount and $41,234 for executive discount on merchandise purchases and the applicable tax gross up amount.

(8) For fiscal 2002, the amount shown includes $49,846 for executive discount on merchandise purchases and the applicable tax gross up amount.

(9) For fiscal 2002, the amount shown includes $26,675 for executive discount on merchandise purchases and the applicable tax gross up amount.

Fiscal 2002 Stock Option Grants

The following table sets forth certain information regarding grants of stock options made during fiscal 2002 to the Named Executives pursuant to the 1995 Equity Plan. No grants of stock appreciation rights were made during fiscal 2002 to any of the Named Executives.

OPTION GRANTS IN LAST FISCAL YEAR

	Individual Grants					
					Potential Realizable Value of Assumed Annual Rates of Stock Price Appreciation for Option Term	
Name	Securities Underlying Options Granted (#)	% of Total Options Granted to Employees in Fiscal Year	Exercise Price ($) / Share (1)	Expiration Date	5%($)	10%($)
J. Zimmerman	0	0%	N/A	N/A	N/A	N/A
T. Lundgren	250,000(2)	5.73%	42.68	3/22/12	6,710,306	17,005,232
R. Tysoe	50,000(2)	1.15%	42.68	3/22/12	1,342,061	3,401,046
T. Cody	50,000(2)	1.15%	42.68	3/22/12	1,342,061	3,401,046
K. Hoguet	30,000(2)	0.69%	42.68	3/22/12	805,237	2,040,628

(1) The exercise price is the closing price for shares of common stock on the NYSE on the business day immediately preceding the date on which the grant was made.

(2) Twenty-five percent of the option award vests on March 22, 2003 (the option vesting date) and on each of the first, second and third anniversaries of the option vesting date.

See Compensation Committee Report on Executive Compensation Specific Compensation Practices Equity-Based Plan for further information regarding grants of stock options made during fiscal 2002.

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Fiscal Year-End Option Values

The following table sets forth certain information regarding the total number and aggregate value of options exercised by each of the Named Executives during fiscal 2002 and the total number and aggregate value of options held by each of the Named Executives at January 31, 2003.

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR

AND FISCAL YEAR-END OPTION VALUES

Name	Shares Acquired on Exercise (#)	Value Realized ($)	Number of Securities Underlying Unexercised Options at Fiscal Year-End (#) Exercisable / Unexercisable	Value of Unexercised In-the-Money Options at Fiscal Year-End ($) Exercisable / Unexercisable (1)
J. Zimmerman	0	0	1,144,500/286,919	2,102,515/0
T. Lundgren	0	0	562,500/553,488	0/0
R. Tysoe	0	0	558,500/227,616	146,095/0
T. Cody	0	0	247,500/214,360	0/0
K. Hoguet	16,000	323,620	130,250/135,494	138,300/0

(1) In-the-money options are options having a per share exercise price below the closing price of shares of common stock on the NYSE on January 31, 2003 (the last trading day in fiscal 2002). The dollar amounts shown represent the amount by which the product of such closing price and the number of shares purchasable upon the exercise of such in-the-money options exceeds the aggregate exercise price payable upon such exercise.

Change-in-Control Agreements

Federated has entered into a change-in-control agreement (Change-in-Control Agreement) with each of the Named Executives. Under the Change-in-Control Agreements, if, prior to November 1, 2006, a change in control (as defined in the Change-in-Control Agreements) occurs and within three years thereafter Federated or, in certain circumstances, the executive terminates the executive s employment and, in the case of a termination by Federated, cause (as defined in the Change-in-Control Agreements) therefor does not exist, the executive would be entitled to a cash severance benefit equal to three times the sum of his or her current base salary (or, if higher, the executive s highest salary received for any year in the three full calendar years preceding the Change in Control) and target annual bonus (or, if higher, the executive s highest bonus received for any year in the three full calendar years preceding the Change in Control), payment of any awards under Federated s long-term incentive plan at target (if applicable, and prorated to the executive s participation during each performance period), the continuation of welfare benefits for three years (subject, but only as to welfare benefits, to a requirement in any applicable welfare benefits plan that the executive maintain actively at work status and to early termination on the date the executive secures other full-time employment) and three years of retirement plan credits (but not pursuant to Federated s qualified or non-qualified plans). The cash severance benefit payable under the Change-in-Control Agreements would be reduced by all amounts actually paid to the executive pursuant to any other employment or severance agreement or plan to which the executive and Federated are parties or in which the executive is a participant. In addition, the severance benefits under the Change-in-Control

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Agreements are subject to reduction in certain circumstances if the excise tax imposed under 280G of the Internal Revenue Code would reduce the net after-tax amount received by the executive.

Retirement Program

Federated s retirement program (the Retirement Program) consists of a defined benefit plan and a defined contribution plan. As of January 1, 2003, approximately 74,300 employees, including the executive officers of Federated, participated in the Retirement Program.

To allow the Retirement Program to provide benefits based on a participant s total compensation, Federated adopted a Supplementary Executive Retirement Plan (the SERP). The SERP, which is a nonqualified unfunded plan, provides to eligible executives retirement benefits based on compensation in excess of Internal Revenue Code maximums, as well as on amounts deferred under Federated s Executive Deferred Compensation Plan (EDCP), in each case employing a formula that is based on the participant s years of vesting service and final average compensation, taking into consideration the participant s balance in the Cash Account Pension Plan and Retirement Profit Sharing Credits (as defined below). As of January 1, 2003, approximately 830 employees were eligible to receive benefits under the terms of the SERP. Federated has reserved the right to suspend or terminate supplemental payments as to any category of employee or former employee, or to modify or terminate any other element of the Retirement Program, in accordance with applicable law.

Under the Retirement Program s Cash Account Pension Plan, a participant retiring at normal retirement age is eligible to receive the amount credited to his or her pension account or the monthly benefit payments determined actuarially based on the amount credited to his or her pension account. Amounts credited to a participant s account consist of an opening cash balance equal to the single sum present value, using stated actuarial assumptions, of the participant s accrued normal retirement benefit earned at December 31, 1996, under the applicable predecessor pension plan, Pay Credits (generally, a percentage of eligible compensation credited annually based on length of service) and Interest Credits (credited quarterly, based on the 30 Year Treasury Bond rate for the November prior to each calendar year). In addition, if a participant retires at or after age 55 having, while employed, both reached age 55 and completed ten or more years of vesting service by December 31, 2001, the pension benefit payable in an annuity form, other than a single life annuity, will not be less than that which would have been payable from the predecessor pension plan under which such participant was covered on December 31, 1996.

Prior to the adoption of the Retirement Program, Federated s primary means of providing retirement benefits to employees was through defined contribution profit sharing plans. An employee s accumulated retirement profit sharing interests in the profit sharing plans (the Retirement Profit Sharing Credits) which accrued prior to the adoption of the pension plans, continue to be maintained and invested until retirement, at which time they are distributed.

With defined benefit plans in place, Federated continued, and presently expects to continue, to make contributions to the Profit Sharing 401(k) Investment Plan. It is impractical to estimate the accrued benefits upon retirement under Federated s Profit Sharing 401(k) Investment Plan because the amount, if any, that will be contributed by Federated and credited to a participant in any year is determined by such variable factors, among others, as the amount of net income of Federated, participants annual contributions to the plan, the amount of matching contributions of Federated, and the earnings on participants accounts.

The following table shows the estimated hypothetical total annual benefits payable under the SERP benefit formula pursuant to the Cash Account Pension Plan, Retirement Profit Sharing Credits and the SERP to persons retiring at their normal retirement age in 2003 in specified eligible compensation and years of service

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classifications, assuming that a retiring participant under the Retirement Program elects a single life annuity distribution of his or her balance in the Cash Account Pension Plan and Retirement Profit Sharing Credits. Such benefits are not subject to any deduction for Social Security or other offset amounts; however, if the total annual benefits payable to a person pursuant to the Cash Account Pension Plan and the Retirement Profit Sharing Credits under the foregoing assumptions would exceed the amount set forth below, no benefit would be payable to such person under the SERP. Eligible compensation for this purpose includes amounts reflected in the Annual Compensation portion of the Summary Compensation Table under the headings Salary and Bonus, but excludes amounts reflected in such portion of such table under the heading Other Annual Compensation. With respect to the Annual Compensation portion of the Summary Compensation Table, the eligible compensation of each of the Named Executives did not vary by more than 10% from the total amount of such executive s annual compensation.

PENSION PLAN TABLE

Final Average Compensation	Years of Service				
	15	20	25	30	35
$ 250,000	$ 48,506	$ 64,674	$ 80,843	$ 97,011	$ 97,011
300,000	59,756	79,674	99,593	119,511	119,511
350,000	71,006	94,674	118,343	142,011	142,011
400,000	82,256	109,674	137,093	164,511	164,511
450,000	93,506	124,674	155,843	187,011	187,011
500,000	104,756	139,674	174,593	209,511	209,511
750,000	161,006	214,674	268,343	322,011	322,011
1,000,000	217,256	289,674	362,093	434,511	434,511
1,250,000	273,506	364,674	455,843	547,011	547,011
1,500,000	329,756	439,674	549,593	659,511	659,511

Messrs. Zimmerman, Lundgren, Tysoe and Cody and Mrs. Hoguet have completed 36, 21, 15, 20 and 20 years of vesting service, respectively. Pursuant to the terms of Mr. Tysoe s former employment agreement with Federated, Mr. Tysoe, whose actual employment commenced on March 1, 1987, is deemed to have commenced employment on February 19, 1981 for the purpose of calculating years of vesting service for benefit accrual. Pursuant to the terms of Mr. Zimmerman s current employment agreement with Federated, Mr. Zimmerman s age will be increased by five years for the purpose of calculating the early retirement monthly and lump sum benefits under the formula used in the SERP. All benefits under the SERP, including the additional benefits payable to Messrs. Tysoe and Zimmerman, are payable out of the general corporate assets of Federated. The present value of the total amount of additional benefits due to Messrs. Tysoe and Zimmerman, assuming they satisfy certain eligibility requirements, is estimated to be approximately $225,000 and $1,304,000, respectively, as of February 1, 2003.

COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION

Overview of Federated s Executive Compensation Policies and Practices

Federated s executive compensation program, which was developed with the assistance of independent compensation and other advisors, is principally intended to: (a) provide appropriate incentives designed to aid in assuring the accomplishment of Federated s performance and financial objectives; (b) help ensure that Federated

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is able to attract and retain top-quality management personnel; and (c) ensure that an appropriate portion of executive compensation is variable and dependent upon the accomplishment of specific performance and financial objectives, as well as increases in stockholder value.

The key guiding principle of the program is that total compensation opportunities, which include annual cash compensation and the value of long-term stock and cash incentives, should be positioned at competitive levels when performance expectations are met, should lead the industry when performance exceeds expectations and should lag behind the industry when performance falls short. The 2002 program consisted of the following components: (a) Base Salary targeted at competitive levels within the retail industry; (b) Performance-Based Annual Cash Incentive based on attainment of specific financial objectives for the total corporation, operating unit and/or individual; and (c) Equity in the form of stock options, which tie any executive gain directly to value creation and stock price appreciation, and, to a limited extent, the use of restricted stock, the ultimate value of which is also directly tied to creation of stockholder value. Information relating to each of the foregoing components is set forth below.

The Compensation Committee (the Committee) engages outside executive compensation consultants, who, along with Federated management, assist the Committee in periodically reviewing the compensation programs of Federated to determine whether the total compensation provided by these programs is consistent with Federated s performance-driven policies. It is also the Committee s general policy to consider whether particular payments and awards are deductible for federal income tax purposes, along with such other factors as may be relevant in the circumstances, in reviewing executive compensation programs. Consistent with this policy, and in response to the final Treasury regulations regarding the deductibility of executive compensation under Section 162(m), the Committee has taken what it believes to be appropriate steps to maximize the future deductibility of payments under Federated s 1992 Bonus Plan and of stock options awarded under the 1995 Equity Plan.

Federated s overall executive compensation program and each of its components are administered by the Committee and the Section 162(m) Subcommittee, based on authority delegated by the Board. All of the members of the Committee are non-employee directors and all of the members of the Section 162(m) Subcommittee are outside directors within the meaning of Section 162(m). See Further Information Concerning The Board of Directors Committees of the Board Compensation Committee for further information regarding the Section 162(m) Subcommittee. In the opinion of the Board each of the Compensation Committee and the Section 162(m) Subcommittee is composed of directors who are independent of any relationships with any officer or other person that would prevent such committee or subcommittee from making independent judgments with respect to matters pertaining to executive compensation generally within its authority or as applied to any specific officer. No executive officer of Federated serves on the board of directors of any other company of which any member of the Board is an executive officer.

Specific Compensation Practices

Employment Agreement with Chairman of the Board. Federated and Mr. Zimmerman entered into an employment agreement, dated as of August 27, 1999, which provided for Mr. Zimmerman to serve as Chairman of the Board and Chief Executive Officer of Federated for a term expiring on April 30, 2003. The employment agreement was amended on June 8, 2001 to extend the term of the agreement to February 1, 2004, and amended again as of February 26, 2003 to provide that Mr. Zimmerman will cease to serve as the Chief Executive Officer of Federated as of February 26, 2003, but will continue as the Chairman of the Board until February 1, 2004. Mr. Zimmerman s employment agreement provides for a base salary of $1.25 million per year, and specifically includes Mr. Zimmerman as a participant in the 1992 Bonus Plan. In connection with his agreement to serve as

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Chairman of the Board and Chief Executive Officer of Federated, Mr. Zimmerman was granted, on August 27, 1999, an option to purchase 450,000 shares of common stock at an exercise price of $46.75 per share. Twenty-five percent of the option award vested, or is scheduled to vest, on each of May 1, 2000, May 1, 2001, May 1, 2002 and May 1, 2003. Mr. Zimmerman was also granted, on August 27, 1999, 100,000 shares of restricted stock, with the restrictions on twenty-five percent of such award having lapsed or scheduled to lapse on each of May 1, 2000, May 1, 2001, May 1, 2002 and May 1, 2003. In connection with the amendment of his employment agreement extending the term of the agreement to February 1, 2004, Mr. Zimmerman was granted, on June 8, 2001, an option to purchase 174,419 shares of common stock at an exercise price of $43.00 per share. One hundred percent of the option award vests on February 1, 2004. If, however, at any time before February 1, 2004, the average closing price of the common stock over a period of twenty consecutive trading days is $75.00 or higher, twenty-five percent of the option award will vest on each of June 1, 2002 and June 1, 2003 and fifty percent will vest on February 1, 2004. Additionally, Mr. Zimmerman s age will be increased by five years for the purpose of calculating the early retirement monthly and lump sum benefits under the formula used in the SERP. Pursuant to Section 162(m), annual compensation accrued to Mr. Zimmerman that is in excess of $1.0 million (excluding Mr. Zimmerman s bonus earned under the 1992 Bonus Plan, as well as any gains from the stock options awarded) will not be deductible by Federated for federal income tax purposes.

Termination of Mr. Zimmerman s employment by Federated other than for cause or by Mr. Zimmerman for good reason would entitle Mr. Zimmerman to receive a lump-sum payment of all salary and targeted annual bonuses for each year until the expiration of the stated term thereof. The term cause is defined generally to include (a) willful and material breaches of duties, (b) habitual neglect of duties, or (c) the final conviction of a felony, but generally does not include bad judgment or negligence, any act or omission believed by Mr. Zimmerman in good faith to have been in or not opposed to the interests of Federated or any act or omission in respect of which a determination could properly have been made by the Board that Mr. Zimmerman met the applicable standard of conduct prescribed for indemnification or reimbursement under the By-Laws or the laws of the state of Delaware. The term good reason is defined generally to include (w) the assignment to Mr. Zimmerman of any duties materially inconsistent with his position, authority, duties or responsibilities as contemplated in the agreement, or any other action by Federated which results in a material diminution in such position, authority, duties or responsibilities, (x) any material failure by Federated to comply with any of the provisions of the agreement, (y) failure of Mr. Zimmerman to be reelected Chairman of the Board of Federated or to be reelected to membership on the Board, or (z) any purported termination by Federated of Mr. Zimmerman s employment otherwise than as expressly permitted by the agreement.

Employment Agreement with Chief Executive Officer. Federated and Mr. Lundgren have entered into an employment agreement, dated as of March 1, 2003, pursuant to which Mr. Lundgren serves as President and Chief Executive Officer of Federated for a term expiring on February 28, 2007. Mr. Lundgren was appointed Chief Executive Officer of Federated effective February 26, 2003. Mr. Lundgren s employment agreement provides for a base salary of $1.2 million per year. In connection with his agreement to serve as President and Chief Executive Officer, Mr. Lundgren was granted, on February 24, 2003, an option to purchase 250,000 shares of common stock at an exercise price of $25.58 per share. Twenty-five percent of the option award will vest on each of February 24, 2004, February 24, 2005, February 24, 2006 and February 24, 2007. Mr. Lundgren was also granted on February 24, 2003, 50,000 shares of restricted stock, with the restrictions on one hundred percent of the award scheduled to lapse on February 28, 2007. Mr. Lundgren s employment agreement contains provisions for compensation in the event of termination of Mr. Lundgren s employment by Federated other than for cause or by Mr. Lundgren for good reason substantially identical to the comparable provisions of Mr. Zimmerman s employment agreement described above.

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Employment Agreements With Other Executive Officers. Each of Federated s other executive officers, along with a number of other key employees, is a party to an employment agreement with Federated. Most of these agreements have a two-year term, although several are for three years or four years, and all incorporate non-compete and mitigation clauses. The agreements with Messrs. Tysoe and Cody and Mrs. Hoguet presently specify the following respective annual base salary rates: $825,000, $750,000 and $650,000. In connection with employment agreements entered into in June 2001, Messrs, Tysoe and Cody and Mrs. Hoguet each received a grant of stock options and restricted stock.

The Committee reviews the compensation levels and other terms of employment of each of Federated s executive officers against the performance of such officers and other factors determined to be appropriate by the Committee on a continuing basis. While the Committee expects Federated will continue its historical practice of entering into employment agreements with its executive officers and other key employees, it reserves the right to modify or terminate that practice generally or in a specific instance upon the expiration of any such agreements.

Annual Cash Incentive. Since fiscal year 1992, Federated s executives have participated in an annual cash bonus plan that was tied directly to Federated s performance. In fiscal 2002, the annual bonus opportunity for Messrs. Zimmerman, Lundgren, Tysoe and Cody and Mrs. Hoguet was based approximately 60% upon Federated s performance against specific EBIT (Earnings Before Interest and Taxes) targets, approximately 20% against specific sales targets and approximately 20% against specific cash flow targets. The Committee (or in certain cases, the Section 162(m) Subcommittee) established performance levels for each annual bonus component: threshold, target and above target levels for EBIT; target and maximum levels for sales; and threshold, target and maximum levels for cash flow. Although Federated s actual sales results for fiscal 2002 did not meet the sales target for 2002, Federated s actual EBIT result was between threshold and target and Federated s actual cash flow result exceeded the maximum level. Accordingly, Messrs. Zimmerman, Lundgren, Tysoe and Cody and Mrs. Hoguet earned bonuses that reflected the amounts between the threshold and target annual bonus opportunity for the EBIT result and the maximum bonus opportunity for the cash flow result that the committee assigned to their positions at the beginning of the year. The Committee (or in certain cases, the Section 162(m) Subcommittee) has reviewed and approved the 2003 annual cash incentive performance targets for the executive group and the corresponding annual bonus opportunities.

Long-Term Incentive. The Compensation Committee decided to discontinue, for an indefinite period, which commenced in fiscal year 2002, the use of long-term incentive awards under the 1992 Bonus Plan. Consequently, there will be no long-term incentive award thereunder for the 2002-2004 performance period. In connection with this decision, long-term incentive awards (and the related performance goals) under the 1992 Bonus Plan for the 2001-2003 performance period will be prorated (i.e., reduced by two-thirds). For the fiscal 2000-2002 and 2001-2003 programs, approximately 70% of the incentive opportunity is based on Federated s performance against a cumulative corporate EBIT target and an EBIT rate target, with approximately 30% being based on Federated s performance against a specified three-year average corporate ROGI target. Historically, consistent with Federated s long-term business plan approved by the full Board, the Committee (or, in certain cases, the Section 162(m) Subcommittee) annually established new three-year threshold, target and maximum EBIT objectives, target and maximum average ROGI objectives and a minimum EBIT rate objective, which generally remain unchanged for each three-year measurement period. Failure to attain the minimum EBIT rate objective results in reduction of the bonus otherwise earned based upon EBIT performance. For the fiscal 2000-2002 performance period, EBIT performance did not meet the threshold objective, resulting in no payout to Federated s executive officers for any component of the plan. For fiscal 2001-2003 performance period, any payout will be paid 100% in credits representing the right to receive shares of common stock (with a 20% premium being added to the amount paid in such credits), except that any payout that Mr. Zimmerman receives

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for the fiscal 2001-2003 performance period will be paid 50% in credits representing the right to receive shares of common stock (with a 20% premium being added to the amount paid in such credits), with the balance being payable in cash. Stock credits issued for any of the above-mentioned performance periods will be settled in shares of common stock three years following the issuance of such stock credits.

Equity-Based Plan. Stock option awards were granted in fiscal 2002 by the Committee to Messrs. Lundgren, Tysoe and Cody and to Mrs. Hoguet.

The fiscal 2002 stock option awards were granted within the guidelines of the equity program, which have been established for all executives, except for the current two most senior executives of Federated. The guidelines featured the use of a range of annual stock option award opportunities for each eligible position within Federated, with the range of opportunity reflecting competitive levels of awards as compared to other retailers and with individual awards reflecting individual performance within Federated. In granting these performance-based awards, key employees were provided with an immediate financial interest in increasing stockholder value. Option awards are typically granted with an exercise price equal to 100% of fair market value at the time of grant, with a 10-year term and vesting over four years.

All equity awards granted in fiscal 2002 were granted pursuant to the 1995 Equity Plan.

Conclusion

The Committee intends to seek to continue to operate under, and to adjust where necessary, these performance-driven compensation policies and practices to assure that they are consistent with the goals and objectives of Federated, and with the primary mission of the full Board of increasing long-term stockholder value.

Respectfully submitted,

Craig E. Weatherup, Chairperson
Meyer Feldberg
Joseph Neubauer
Joseph A. Pichler

AUDIT REVIEW COMMITTEE REPORT

The Board has adopted a written Audit Review Committee Charter. All members of the Audit Review Committee are independent, as defined in Section 303.01(B)(2)(a) and (3) of the New York Stock Exchange s listing standards.

The Audit Review Committee has reviewed and discussed with Federated s management and KPMG LLP, the audited financial statements of Federated contained in Federated s Annual Report to stockholders for fiscal 2002. The Audit Review Committee has also discussed with KPMG LLP the matters required to be discussed pursuant to SAS No. 61 (Codification of Statements on Auditing Standards, Communications with Audit Committees).

The Audit Review Committee has received and reviewed the written disclosures and the letter from KPMG LLP required by Independence Standards Board Standard No. 1 (titled, Independence Discussions with Audit Committee s), and has discussed with KPMG LLP their independence.

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Based on the review and discussions referred to above, the Audit Review Committee recommended to the Board that the audited financial statements be included in Federated s Annual Report on Form 10-K for fiscal 2002, filed with the United States Securities and Exchange Commission.

Respectfully submitted,

Marna C. Whittington, Chairperson
Earl G. Graves, Sr.
Sara Levinson
Joseph Neubauer
Karl M. von der Heyden

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COMPARISON OF TOTAL STOCKHOLDER RETURN

The following graph compares the cumulative total stockholder return on the common stock with the Standard & Poor s 500 Composite Index and the Standard & Poor s Retail Department Store Index for the period from January 31, 1998 through February 1, 2003, assuming an initial investment of $100 and the reinvestment of all dividends, if any.

	1998	1999	2000	2001	2002	2003
Federated	$100	$ 99	$ 99	$106	$ 97	$ 62
S&P 500	$100	$132	$143	$143	$121	$ 94
S&P Dept. Stores	$100	$ 99	$ 78	$103	$113	$ 81

The companies included in the S&P Retail Department Store Index are Dillard s, Federated, J.C. Penney, Kohl s, May, Nordstrom and Sears.

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STOCKHOLDER PROPOSALS

Proposals for 2004 Annual Meeting. Stockholders of Federated may submit proposals on matters appropriate for stockholder action at meetings of Federated s stockholders in accordance with Rule 14a-8 promulgated under the Exchange Act (Rule 14a-8). For such proposals to be included in Federated s proxy materials relating to its 2004 annual meeting of stockholders, all applicable requirements of Rule 14a-8 must be satisfied and such proposals must be received by Federated no later than December 17, 2003.

Except in the case of proposals made in accordance with Rule 14a-8, the By-Laws require that stockholders intending to bring any business before an annual meeting of stockholders deliver written notice thereof to the Secretary of Federated not less than 60 days prior to the meeting. However, in the event that the date of the meeting is not publicly announced by Federated by inclusion in a report filed with the SEC or furnished to stockholders, or by mail, press release or otherwise more than 75 days prior to the meeting, notice by the stockholder to be timely must be delivered to the Secretary of Federated not later than the close of business on the tenth day following the day on which such announcement of the date of the meeting was so communicated. The By-Laws further require, among other things, that the notice by the stockholder set forth a description of the business to be brought before the meeting and certain information concerning the stockholder proposing such business, including such stockholder s name and address, the class and number of shares of Federated s capital stock that are owned beneficially by such stockholder and any material interest of such stockholder in the business proposed to be brought before the meeting. The chairman of the meeting may refuse to permit to be brought before the meeting any stockholder proposal (other than a proposal made in accordance with Rule 14a-8) not made in compliance with these requirements. Similar procedures prescribed by the By-Laws are applicable to stockholders desiring to nominate candidates for election as directors. See Further Information Concerning the Board of Directors Director Nomination Procedures.

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OTHER MATTERS

The Board knows of no business which will be presented for consideration at the annual meeting other than that described in this proxy statement. However, if any business shall properly come before the annual meeting, the persons named in the enclosed form of proxy or their substitutes will vote said proxy in respect of any such business in accordance with their best judgment pursuant to the discretionary authority conferred thereby.

The cost of preparing, assembling and mailing the proxy material will be borne by Federated. The Annual Report of Federated for fiscal 2002, which is being mailed to the stockholders with this proxy statement, is not to be regarded as proxy soliciting material. Federated may solicit proxies otherwise than by the use of the mails, in that certain officers and regular employees of Federated, without additional compensation, may use their personal efforts, by telephone or otherwise, to obtain proxies. Federated will also request persons, firms and corporations holding shares in their names, or in the name of their nominees, which are beneficially owned by others, to send proxy material to and obtain proxies from such beneficial owners and will reimburse such holders for their reasonable expenses in so doing. In addition, Federated has engaged the firm of Georgeson Shareholder Communications, Inc. (Georgeson), of New York City, to assist in the solicitation of proxies on behalf of the Board. Georgeson will solicit proxies with respect to common stock held by brokers, bank nominees, other institutional holders and certain individuals, and will perform related services. It is anticipated that the cost of the solicitation service to Federated will not substantially exceed $12,000.

By: /s/ DENNIS J. BRODERICK

Dennis J. Broderick
Secretary

April 16, 2003

PLEASE CAST YOUR VOTE BY FOLLOWING THE INSTRUCTIONS ON THE ENCLOSED PROXY CARD. IF YOU CHOOSE TO CAST YOUR VOTE BY COMPLETING THE ENCLOSED PROXY CARD, PLEASE RETURN IT PROMPTLY IN THE ENCLOSED ADDRESSED ENVELOPE, WHICH REQUIRES NO POSTAGE IF MAILED IN THE UNITED STATES.

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Instructions for Voting Your Proxy

Federated offers stockholders of record three alternative means of voting proxies:

By Telephone (using a touch-tone phone) **Through the Internet** (using a browser) **By Mail** (traditional method)

Your telephone or Internet vote authorizes the trustee to vote your shares in the same manner as if you had returned your proxy card. We encourage you to use these cost effective and convenient ways of voting, 24 hours a day, 7 days a week.

TELEPHONE VOTING Available only for residents of the United States and Canada.

On a touch tone telephone, call ***TOLL FREE 877-381-4019,*** 24 hours a day, 7 days a week.

Enter ONLY the Control Number shown below.

Have your proxy card ready, then follow the instructions.

Your vote will be confirmed and cast as you directed.

The deadline for casting your vote is 5:00 p.m., Eastern Daylight Time on May 15, 2003.

INTERNET VOTING

Visit our Internet voting website at http://proxy.georgeson.com.

Enter Federated s Company Number **AND** the Control Number shown below and follow the instructions on your screen.

You will incur only your usual Internet charges.

The deadline for casting your vote is 5:00 p.m., Eastern Daylight Time on May 15, 2003.

VOTING BY MAIL

Simply mark, sign and date your proxy card and return it in the postage-paid envelope.

If you are voting by telephone or the Internet, please do not mail your proxy card.

COMPANY NUMBER	CONTROL NUMBER

TO VOTE BY MAIL, PLEASE DETACH PROXY CARD HERE

x Please mark votes as in this example.

THE DIRECTORS RECOMMEND A VOTE FOR ALL NOMINEES LISTED IN ITEM 1, FOR ITEM 2 AND AGAINST ITEM 3.

1. Election of Directors

Nominees for a three-year term: Earl G. Graves, Sr., Craig E. Weatherup and James M. Zimmerman

FOR all nominees listed above	**WITHHOLD authority to vote for all nominees listed above**	***EXCEPTIONS**
o	o	o

(INSTRUCTIONS: To withhold authority to vote for any individual nominee, mark the Exceptions box and write that nominee s name in the space below.)

*Exceptions_____

		FOR	**AGAINST**	**ABSTAIN**
2.	To ratify the appointment of KPMG LLP as Federated s independent accountants for the fiscal year ending January 31, 2004.	o	o	o
3.	To act upon a stockholder proposal to take the necessary steps to adopt a system for the annual election of all of Federated s directors.	o	o	o

For purposes of the 2003 Annual Meeting, proxies will be held in confidence (subject to certain exceptions as set forth in the Proxy Statement) unless the undersigned checks the box to the right: o

If you have a change of address, please indicate those changes on the information printed on this card and check the Change of Address box to the right.

Change of Address Mark Here o

Unless voting by telephone or Internet, this proxy should be dated, signed by the stockholder as his or her name appears hereon, and returned promptly in the enclosed envelope. Joint owners should each sign personally, and trustees and others signing in a representative capacity should indicate the capacity in which they sign.

DATED: _____, 2003

_____

Signature of Stockholder

_____

Signature of Stockholder

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TO VOTE BY MAIL, PLEASE DETACH PROXY CARD HERE

FEDERATED DEPARTMENT STORES, INC.

Proxies Solicited on Behalf of the Board of Directors for
Annual Meeting of Stockholders on May 16, 2003

P R O X Y

The undersigned holder of shares of Common Stock of Federated hereby appoints Meyer Feldberg, Terry J. Lundgren and Joseph A. Pichler, and each of them, as proxies of the undersigned, with full power of substitution, to act and to vote for and in the name, place and stead of the undersigned at the Annual Meeting of Stockholders of Federated to be held at its corporate offices located at 7 West Seventh Street, Cincinnati, Ohio, 45202 at 11:00 a.m., Eastern Daylight Time, on Friday, May 16, 2003, and at any and all postponements and adjournments thereof, according to the number of votes and as fully as the undersigned would be entitled to vote if personally present at such meeting, and particularly with respect to the proposals listed on the reverse side.

THIS PROXY WILL BE VOTED AS DIRECTED. IF NO DIRECTION IS INDICATED, THIS PROXY WILL BE VOTED FOR ALL NOMINEES LISTED IN ITEM 1, FOR ITEM 2 AND AGAINST ITEM 3, AND WILL BE VOTED IN THE DISCRETION OF THE PROXIES IN RESPECT OF SUCH OTHER BUSINESS AS MAY PROPERLY COME BEFORE THE ANNUAL MEETING.

PLEASE MARK, SIGN AND RETURN THIS PROXY CARD PROMPTLY, USING THE ENVELOPE PROVIDED. IF YOU ARE VOTING BY TELEPHONE OR THE INTERNET, PLEASE DO NOT MAIL YOUR PROXY CARD.

(CONTINUED, AND TO BE DATED AND SIGNED, ON THE OTHER SIDE)

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Instructions for Voting Your Proxy

Federated offers stockholders of record three alternative means of voting proxies:

By Telephone (using a touch-tone phone) **Through the Internet** (using a browser) **By Mail** (traditional method)

Your telephone or Internet vote authorizes the trustee to vote your shares in the same manner as if you had returned your proxy card. We encourage you to use these cost effective and convenient ways of voting, 24 hours a day, 7 days a week.

TELEPHONE VOTING Available only for residents of the United States and Canada.

On a touch tone telephone, call ***TOLL FREE 877-381-4019,*** 24 hours a day, 7 days a week.

Enter ONLY the Control Number shown below.

Have your proxy card ready, then follow the instructions.

Your vote will be confirmed and cast as you directed.

The deadline for casting your vote is 5:00 p.m., Eastern Daylight Time on May 14, 2003.

INTERNET VOTING

Visit our Internet voting website at http://www.fds.com/vote.

Enter Federated s Company Number **AND** the Control Number shown below and follow the instructions on your screen.

You will incur only your usual Internet charges.

The deadline for casting your vote is 5:00 p.m., Eastern Daylight Time on May 14, 2003.

VOTING BY MAIL

Simply mark, sign and date your proxy card and return it in the postage-paid envelope.

If you are voting by telephone or the Internet, please do not mail your proxy card.

COMPANY NUMBER	CONTROL NUMBER

TO VOTE BY MAIL, PLEASE DETACH PROXY CARD HERE

x Please mark votes as in this example.

THE DIRECTORS RECOMMEND A VOTE FOR ALL NOMINEES LISTED IN ITEM 1, FOR ITEM 2 AND AGAINST ITEM 3.

1. Election of Directors

Nominees for a three-year term: Earl G. Graves, Sr., Craig E. Weatherup and James M. Zimmerman.

FOR all nominees listed above	**WITHHOLD** authority to vote for all nominees listed above	***EXCEPTIONS**
o	o	o

(INSTRUCTIONS: To withhold authority to vote for any individual nominee, mark the Exceptions box and write that nominee s name in the space below.)

*Exceptions_____

		FOR	AGAINST	ABSTAIN
2.	To ratify the appointment of KPMG LLP as Federated s independent accountants for the fiscal year ending January 31, 2004.	o	o	o
3.	To act upon a stockholder proposal to take the necessary steps to adopt a system for the annual election of all of Federated s directors.	o	o	o

For purposes of the 2003 Annual Meeting, proxies will be held in confidence (subject to certain exceptions as set forth in the Proxy Statement) unless the undersigned checks the box to the right: o

If you have a change of address, please indicate those changes on the information printed on this card and check the Change of Address box to the right.

Change of Address Mark Here o

DATED: _____, 2003

_____

Signature of Participant

Instructions
1. Read the enclosed materials carefully.
2. Unless voting by telephone or the Internet, please complete and sign this instruction card, and return it promptly in the enclosed postage paid envelope.
3. The tabulator is: Georgeson Shareholder Communications, Inc. c/o Proxyco P.O. Box 1100 New York, NY 10269-0224

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TO VOTE BY MAIL, PLEASE DETACH PROXY CARD HERE

FEDERATED DEPARTMENT STORES, INC.

To: J.P. Morgan Chase and Co., as Trustee for the Federated Department Stores, Inc. Profit Sharing 401(k) Investment Plan.

P R O X Y

I acknowledge receipt of this Letter to Stockholders, the Notice of Annual Meeting of Stockholders of Federated Department Stores, Inc. to be held on May 16, 2003, and the related Proxy Instructions.

As to my proportional interest in any stock of Federated registered in your name, you are directed as indicated on the reverse side as to the matters listed in the form of Proxy solicited by the Board of Directors of Federated.

I understand that if I sign this instruction card on the other side without otherwise indicating my voting instructions, it will be understood that I wish my proportional interest in the shares to be voted in accordance with the recommendations of the Board of Directors of Federated as to Items 1, 2 and 3.

If any such stock is registered in the name of your nominee, the authority and directions herein shall extend to such nominee.

(CONTINUED, AND TO BE DATED AND SIGNED, ON THE OTHER SIDE)