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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

RECD S.E.C.
APR 27 1987
FEE 38

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended January 31, 1987 — Commission File Number 1-163

Federated Department Stores, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

31-0513863
(I.R.S. Employer Identification No.)

7 West Seventh Street
Cincinnati, Ohio
(Address of principal executive offices)

45202
(Zip Code)

RECEIVED
APR 29 1987
Bechtel Information Services
Gaithersburg, Maryland

(513) 579-7000
Registrant's telephone number

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

Title of each class	Name of each exchange on which registered
Common Stock, $1.25 par value	New York Stock Exchange
8⅝% Sinking Fund Debentures due September 15, 1995	New York Stock Exchange
7⅛% Sinking Fund Debentures due March 15, 2002	New York Stock Exchange
7.35% Sinking Fund Debentures due January 1, 1997	New York Stock Exchange
10¼% Sinking Fund Debentures due June 15, 2010	New York Stock Exchange
10⅝% Sinking Fund Debentures due May 1, 2013	New York Stock Exchange
9½% Sinking Fund Debentures due March 1, 2016	———
7⅞% Notes due December 15, 1996	———

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

The aggregate market value of registrant's Common Stock, $1.25 par value, held by non-affiliates of registrant (based on the closing price of registrant's common stock, New York Stock Exchange—Composite Transactions on April 7, 1987) is $4,302,464,032.

Number of shares of Common Stock, $1.25 par value, outstanding as of April 7, 1987: 93,485,288.*

*This reflects the two-for-one stock split that occurred on April 13, 1987.

Documents incorporated by reference:

Portions of the registrant's 1986 Annual Report to shareholders are incorporated by reference in Parts I, II and IV.

The definitive proxy statement relating to the registrant's Annual Meeting of Shareholders to be held on May 28, 1987, is incorporated by reference in Part III.

Page 001 of a total of 87 pages.
Exhibit volume index on page 6,

PART I

Item 1. *Business.*

Federated Department Stores, Inc. (the "Company") is a diversified retail firm serving customers through department stores, mass merchandising stores, other stores and supermarkets. At January 31, 1987, its fourteen store divisions operated in the aggregate 225 department stores, 76 mass merchandising stores and 203 other stores in major retail markets in 36 states and its Ralphs division operated 127 supermarkets in California. The Company has approximately 133,000 employees, which number is subject to substantial seasonal variation.

The Company is a Delaware corporation, incorporated in 1929, and has its principal office at 7 West Seventh Street, Cincinnati, Ohio.

The operation of each division of the Company is largely autonomous with respect to current operations, personnel, merchandising, purchasing and other similar matters. Direct buying is conducted by each of the divisions by the individual buyers and merchandise personnel of each division in the open market under competitive conditions.

The business of each of the Company's department stores, mass merchandising stores, other stores and supermarkets is conducted under highly competitive conditions. The principal methods of competition involve price, quality of products offered for sale, and service. The business of the Company's department, mass merchandising and other stores is seasonal in nature with substantial amounts of their sales and earnings occurring during the Christmas season.

Department Stores

Abraham and Straus, Bloomingdale's, Bullock's/Bullocks Wilshire, Burdines, Filene's, Foley's, Goldsmith's, Lazarus, I. Magnin and Rich's each comprised a separate division of the Company at January 31, 1987. These ten divisions operated in the aggregate 225 stores. In January 1987, the Foley's and Sanger Harris divisions were merged into a single division operating 37 stores under the Foley's name.

These 225 stores occupied in the aggregate 45,270,000 square feet of floor area and are located in many of the nation's major metropolitan areas including, Albuquerque, Atlanta, Austin, Birmingham, Boston, Chicago, Cincinnati, Columbus, Dallas, Dayton, Fort Lauderdale, Fort Worth, Houston, Indianapolis, Lexington, Los Angeles, Louisville, Memphis, Miami, New York, Oklahoma City, Orlando, Philadelphia, Phoenix, San Antonio, San Diego, San Francisco, Seattle, Tampa, Tucson, Tulsa, Washington, D.C. and West Palm Beach.

Each of the department stores is a leading retail institution in the community in which it is located. Each carries the classes of merchandise usually handled by such stores, including men's, women's and children's wearing apparel and accessories; and many carry home furnishings, housewares and appliances.

Mass Merchandising

The Company's mass merchandising division operates 48 mass merchandising stores in Ohio, Kentucky, South Carolina and New York under the Gold Circle name and 28 mass merchandising stores in Georgia, North Carolina, Tennessee and Florida under the Richway name. These 76 stores occupied in the aggregate 8,239,000 square feet of floor area.

The Company's mass merchandising stores are strongly price competitive. They offer budget soft goods and wide assortments in selected convenience hard goods. In addition to carrying well-known brand name merchandise, they market private label goods including some wearing apparel, health and beauty aids, automotive supplies and lawn and garden tools and supplies.

Other Stores

At January 31, 1987, The Children's Place division operated 163 children's apparel specialty outlet and super stores and 3 womens's accessories stores operating under The Accessory Place name in 26 states. The Company's MainStreet division, a chain of family-oriented, soft goods stores, operated 15 stores in the Chicago and Detroit areas, and the Filene's Basement division, an off-price, specialty retailer, operated 22 stores in 7 eastern states. These 203 stores occupied in the aggregate 2,769,000 square feet of floor area.

Supermarkets

The Ralphs division operated 127 supermarkets at the Company's year end in southern California together with related food processing facilities. These stores occupied in the aggregate 5,324,000 square feet of floor area.

Segment Information

Information concerning the sales, operating profit and identifiable assets of the department stores, mass merchandising stores, other stores and supermarkets of the Company for each of the last three years is set forth under the caption "Business Segments" at page 32 of the Company's 1986 Annual Report to shareholders and is incorporated herein by reference.

Central Office

The central office of the Company in Cincinnati makes available extensive advisory services to each of its divisions. These services include forecasts of economic conditions, policies with respect to store organization and executive personnel functions, financial and accounting policies and procedures, tax, legal and insurance assistance, real estate development, utilization of electronic systems, and special research studies such as those involving trends and new developments in consumer credit.

Item 2. ***Properties.***

At January 31, 1987, the Company's stores occupied, in the aggregate, approximately 61,602,000 square feet of floor area, of which approximately 4,769,000 square feet of new retail space was added in the last two fiscal years. The Company's department store divisions operated 225 stores which occupied, in the aggregate, approximately 45,270,000 square feet of floor area and its mass merchandising stores operated 76 stores aggregating 8,239,000 square feet of floor area. The Company's other store divisions operated 203 stores and occupied, in the aggregate, 2,769,000 square feet of floor area. Ralphs division operated 127 supermarkets which occupied, in the aggregate, 5,324,000 square feet of floor area. Additional information concerning the Company's properties is set forth in "Item 1. Business" herein and under the caption "Properties and Leases" at page 26 of the Company's 1986 Annual Report to shareholders and is incorporated herein by reference.

At January 31, 1987, of the 225 department stores, 146 are entirely or mostly owned, and 79 are entirely or mostly leased. Of the 76 mass merchandising stores, 45 are entirely or mostly owned and 31 are entirely or mostly leased. Of the Company's 203 other stores, 7 are entirely or mostly owned and 196 are entirely or mostly leased. Of the 127 supermarkets, 32 are entirely or mostly owned and 95 are entirely or mostly leased.

Item 3. ***Legal Proceedings.***

The Company is the defendant in a number of legal proceedings involving claims for money damages arising in the ordinary course of business which are either covered by insurance or are within the Company's self-insurance program, and in a number of other proceedings otherwise not deemed material by counsel for the Company.

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

There were no matters submitted to the shareholders of the Company for a vote during the fourth quarter of the fiscal year ended January 31, 1987.

Executive Officers of the Registrant.

Name	Title	Age
Howard Goldfeder	Chairman of the Board and Chief Executive Officer	60
Norman S. Matthews	President and Chief Operating Officer	54
John W. Burden III	Vice Chairman of the Board	50
Donald J. Stone	Vice Chairman of the Board	58
Will M. Storey	Vice Chairman of the Board	55
Allen I. Questrom	Executive Vice President	47
Thomas G. Cody	Senior Vice President	45
Russell S. Davis	Senior Vice President	51
James M. Leahy	Senior Vice President and Treasurer	60
Avner M. Porat	Senior Vice President	47
James B. Selonick	Senior Vice President	61
Phyllis S. Sewell	Senior Vice President	56
James N. Andress	Vice President	41
Boris Auerbach	Vice President and Secretary	55
Dennis J. Broderick	Vice President	39
Jack Brown	Vice President and Controller	47
Walter A. Couper	Vice President	52
Samuel E. Dyer	Vice President	61
Daryl K. Mangan	Vice President	43
H. Stewart Rose	Vice President	53
Paul P. Thiemann	Vice President	59
Marvin S. Traub	Vice President	62

The principal occupation and employment of the officers listed above has remained unchanged for the last five years except as set forth below.

Mr. Goldfeder was elected Chief Executive Officer in 1981, and Chairman of the Board in 1982. Mr. Matthews was elected an Executive Vice President of the Company in 1982, a Vice Chairman of the Board of the Company in 1984, and President and Chief Operating Officer effective March 1987. Mr. Burden was promoted in 1985 from Chairman of the Abraham and Straus division to Vice Chairman of the Board of the Company. Mr. Storey joined the Company and was elected a Vice Chairman of the Board in 1982. Mr. Questrom moved in 1984, from Chairman of the Rich's division to Chairman of the Bullock's/Bullocks Wilshire division. Effective March 1987, he assumed the additional duties of Executive Vice President of the Company. Mr. Cody joined the Company and was elected Senior Vice President in 1982. Mr. Davis served as Vice President for Strategic Planning for Union Pacific Corporation from 1980, through 1984, when he joined the Company as Senior Vice President. Mr. Leahy was promoted from Vice President and Treasurer to Senior Vice President and Treasurer in 1986. Mr. Porat joined the Company as Senior Vice President in 1985. He had been a General Partner of Hay Associates prior thereto. Mr. Andress joined the Company in 1981, as Operating Vice President — Executive Staffing and Development. In 1986, he was elected to his present position. Mr. Broderick joined the Company in February 1987, as Vice President. From 1982, until he joined the Company, he was an attorney for Firestone Tire & Rubber Company where he rose to the level of Assistant General Counsel. Mr. Brown was elected Vice President and Controller in 1984. Prior to that he was Operating Vice President for Internal Audit. In 1982, Mr. Mangan became Operating Vice President — Real Estate, and in 1986, he was elected to his present position.

PART II

Item 5. ***Market for the Registrant's Common Equity and Related Stockholder Matters.***

The information called for by this item is incorporated by reference to pages 31, 40 and 44 of the Company's 1986 Annual Report to shareholders.

Item 6. *Selected Financial Data.*

The information called for by this item is incorporated by reference to the "Consolidated Eleven-Year Table of Selected Financial Data" at page 40 of the Company's 1986 Annual Report to shareholders.

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

The information called for by this item is incorporated by reference to "Management's Discussion and Analysis of Financial Condition and Results of Operations" at page 35 of the Company's 1986 Annual Report to shareholders.

Item 8. *Financial Statements and Supplementary Data.*

The information called for by this item is incorporated by reference to the Company's 1986 Annual Report to shareholders as set forth in Item 14(a) herein under the caption "Financial Statements".

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

There have been no disagreements with the Company's accountants on accounting and financial disclosure.

PART III

Item 10. *Directors and Executive Officers of the Registrant.*

The information called for by this item is set forth in the Company's definitive proxy statement relating to its annual meeting of shareholders to be held May 28, 1987, under the caption "Election of Directors" and is incorporated herein by reference. See also the information set forth under the caption "Executive Officers of the Registrant" in Part I herein.

Item 11. *Executive Compensation.*

The information called for by this item is set forth in the Company's definitive proxy statement for its annual meeting of shareholders to be held May 28, 1987, under the caption "Executive Compensation" and is incorporated herein by reference.

Item 12. *Security Ownership of Certain Beneficial Owners and Management.*

The information called for by this item is set forth in the Company's definitive proxy statement relating to its annual meeting of shareholders to be held May 28, 1987, under the caption "Election of Directors" and is incorporated herein by reference.

Item 13. *Certain Relationships and Related Transactions.*

The information called for by this item is set forth in the Company's definitive proxy statement relating to its annual meeting of shareholders to be held May 28, 1987, under the caption "Election of Directors" and "Loans to Executives" and is incorporated herein by reference.

PART IV

Item 14. *Exhibits, Financial Statement Schedules, and Reports on Form 8-K.*

(a) Documents filed as a part of this Report:

(1) Financial Statements. Incorporated by reference to the Company's 1986 Annual Report to shareholders:

BECHTEL

Information Services

15740 Shady Grove Road

Gaithersburg, Maryland 20877-1454

EXHIBITS FOLLOW

EPD-33805 10/85

(2) **Financial Statement Schedules.**

All other schedules are omitted because they are inapplicable, not required or the information is included elsewhere in the financial statements or the notes thereto.

(3) **Exhibits.**

3.1 Restated Certificate of Incorporation as amended May 29, 1986 (Enclosed herewith) P. 18

3.2 By-laws as presently in effect (Enclosed herewith) P. 26

4.1 Rights Agreement between the Company and Manufacturers Hanover Trust Company, as Rights Agent, dated as of January 23, 1986 (Incorporated by reference to Exhibit I of the registrant's Form 8-K dated February 24, 1986)

10.1 1984 Stock Option Plan of the Company (Incorporated by reference to Exhibit C of the registrant's definitive proxy statement for its annual meeting held May 31, 1984, and Exhibit 10.1 of registrant's Form 10-K Annual Report for the year ended January 28, 1984)

10.2 1980 Stock Option Plan of the Company as amended (Incorporated by reference to Exhibit A of the registrant's definitive proxy statement for its annual meeting held May 29, 1980, and Exhibit 10.4 of registrant's Form 10-K Annual Report for the year ended January 30, 1982)

10.3 1976 Stock Option Plan of the Company (Incorporated by reference to Exhibit 3 of Registration Statement No. 2-58845)

10.4 Restricted Stock Grant Plan of the Company as amended (Incorporated by reference to Exhibit 1 of Registration Statement No. 2-68586 and Exhibit 10.4 of Registration Statement No. 2-72283)

10.5 Executives Deferred Compensation Plan of the Company as amended (Incorporated by reference to Exhibit 10.5 of the Company's Form 10-K Annual Report for the year ended February 1, 1986)

10.6 Form of deferred compensation agreement for directors who are not employees of the Company (Incorporated by reference to Exhibit 10.6 of the Company's Form 10-K Annual Report for the year ended January 31, 1981)

10.7	Senior Executives Medical Plan (Incorporated by reference to Exhibit 10.8 of the registrant's Form 10-K Annual Report for the year ended January 31, 1981)
10.8	Forms of employment agreement between the Company and directors who are employees and executive officers of the Company (Incorporated by referance to Exhibit 10.8 of the registrant's Form 10-K Annual Report for the year ended February 1, 1986)
10.9	Supplementary Executive Retirement Plan (Incorporated by reference to Exhibit 10.10 of the registrant's Form 10-K Annual Report for the year ended January 28, 1984)
10.10	Retirement Income and Thrift Incentive Plan as amended effective January 1, 1984 (Incorporated by reference to Exhibit 10.11 of the registrant's Form 10-K Annual Report for the year ended January 28, 1984)
10.11	Retirement Income Plan (Incorporated by reference to Exhibit 10.12 of registrant's Form 10-K Annual Report for the year ended January 28, 1984)
11.1	Exhibit of Primary and Fully Diluted Earnings Per Share (Page E-1 herein)
13.1	1986 Annual Report to shareholders, but only to the extent set forth in Parts I, II and IV herein* (Enclosed herewith) P. 40
24.1	Accountants' Consent (Page E-2 herein)
25	Powers of Attorney (Enclosed herewith) P. 86

* With the exception of the aforementioned information incorporated by reference in this report, the Company's 1986 Annual Report to shareholders is not to be deemed "filed" as a part of this report.

(b) During the quarter ended January 31, 1987, the Company filed one report on Form 8-K dated December 22, 1986.

A copy of the exhibits listed herein can be obtained by writing:

Director of Investor Relations
Federated Department Stores, Inc.
7 West Seventh Street
Cincinnati, Ohio 45202

SIGNATURES

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

FEDERATED DEPARTMENT STORES, INC.

Date: April 24, 1987

By Howard Goldfeder
Howard Goldfeder, Chairman of the Board

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

Name	Title	Date
Howard Goldfeder Howard Goldfeder	Chairman of the Board and Director (Principal Executive Officer)	April 24, 1987
Will M. Storey Will M. Storey	Vice Chairman of the Board and Director (Principal Financial Officer)	April 21, 1987
Jack Brown Jack Brown	Vice President and Controller (Principal Accounting Officer)	April 27, 1987

A Majority of Directors:

John W. Burden III
Robert A. Charpie
Howard W. Johnson
Reginald H. Jones
Daniel W. LeBlond — Directors — April 24, 1987
G. William Miller
Peter G. Peterson
Will M. Storey
Marvin S. Traub
Clifton R. Wharton, Jr.
Kathyrn D. Wriston

By Boris Auerbach
(Boris Auerbach, Attorney-in-Fact)

*Boris Auerbach, by signing his name hereto, does sign this document on behalf of each of the persons named above, pursuant to the powers of attorney duly executed by such persons, filed with the Securities and Exchange Commission herewith.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON SCHEDULES

BOARD OF DIRECTORS AND SHAREHOLDERS
FEDERATED DEPARTMENT STORES, INC.

In connection with our examination of the consolidated financial statements of Federated Department Stores, Inc. and subsidiaries as of January 31, 1987, and February 1, 1986, and for each of the three years in the period ended January 31, 1987, which report is included in the registrant's Annual Report to shareholders and incorporated by reference, we also examined the supporting schedules listed on page 5. In our opinion, these schedules present fairly, when read in conjunction with the related consolidated financial statements, the financial data required to be set forth therein.

Touche Ross & Co.

New York, New York
March 17, 1987
(March 26, 1987 as to Note 15)

TOUCHE ROSS & CO.
Certified Public Accountants

FEDERATED DEPARTMENT STORES, INC.

SCHEDULE II—AMOUNTS RECEIVABLE FROM RELATED PARTIES AND UNDERWRITERS, PROMOTERS AND EMPLOYEES OTHER THAN RELATED PARTIES

Column A	Column B	Column C	Column D		Column E	
			Deductions		Balance at end of period	
			(1)	(2)	(1)	(2)
Name of debtor	Balance at beginning of period	Additions	Amounts collected	Amounts written off	Current	Not current
John W. Burden III	$425,000	—	—	—	—	$425,000
Allen Questrom	$638,000	—	—	—	—	$638,000
Robert Tammero	$250,000	—	$250,000	—	—	—

In October 1981, the Company made an unsecured interest free loan in the amount of $425,000 to Mr. John W. Burden III, Vice Chairman of the Board, in connection with his relocation from Miami, Florida to New York.

The Company made loans in the amount of $638,000 to Mr. Allen Questrom, Executive Vice President of the Company and Chairman of the Bullock's division, in connection with his relocation from Atlanta, Georgia to California. A loan in the amount of $600,000 bears interest at 6% per annum and requires a payment to the Company of 40% of the net appreciation value, if any, that Mr. Questrom will realize upon the sale of his California home. The loan was secured by an interest in the home.

The Company made an unsecured loan bearing interest at 10% per annum in the amount of $250,000 to Mr. Robert Tammero, President of the Bloomingdale's division, in connection with his transfer from the Abraham & Straus division. The loan was repaid in December 1986.

FEDERATED DEPARTMENT STORES, INC.

SCHEDULE V—PROPERTY, PLANT AND EQUIPMENT

Column A	Column B	Column C	Column D	Column E	Column F
(thousands) Description	Balance at beginning of period	Additions at cost	Retirements	Other changes—debit and/or credit—describe (Transfers)	Balance at close of period
52 Weeks Ended January 31, 1987:					
Land	$ 140,076	$ 1,256	$ 3,868	$ 2,317*	$ 135,147
Buildings, substantially all on owned land	1,039,637	69,717	43,350	5,543*	1,060,461
Buildings on leased land, improvements to leased properties and leaseholds	552,141	110,730	13,296	7,149*	642,426
Store fixtures and equipment	1,421,771	286,320	109,128	13	1,598,976
Property not used in operations	84,452	14,274	21,413	14,996	92,309
Capitalized leases	191,157	32,537	13,570	—	210,124
	$3,429,234	$ 514,834	$ 204,625	$ —	$3,739,443
52 Weeks Ended February 1, 1986:					
Land	$ 129,249	$ 7,843	$ 3,083	$ 6,067	$ 140,076
Buildings, substantially all on owned land	988,838	86,144	40,072	4,727	1,0[illegible]9,637
Buildings on leased land, improvements to leased properties and leaseholds	540,871	38,105	22,516	4,319*	552,141
Store fixtures and equipment	1,293,253	230,270	101,101	651*	1,421,771
Property not used in operations	100,276	1,141	11,141	5,32[illegible]*	84,452
Capitalized leases	205,010	688	14,541	[illegible]	191,157
	$3,257,497	$ 364,191	$ 192,454	$ —	$3,429,234
53 Weeks Ended February 2, 1985:					
Land	$ 129,389	$ 358	$ 2,035	$ 1,537	$ 129,249
Buildings, substantially all on owned land	970,892	36,092	17,16[illegible]	985*	988,838
Buildings on leased land, improvements to leased properties and leaseholds	539,467	31,631	[illegible]1,500	1,273	540,871
Store fixtures and equipment	1,181,977	198,151	86,888	13	1,293,253
Property not used in operations	94,255	25,751	17.892	1,838*	100,276
Capitalized leases	206,913	4,236	6,139	—	205,010
	$3,122,893	$ 296,21[illegible]	$ 161,615	$ —	$3,257,497

* Deductions.

NOTE: Depreciation and amortization are provided primarily on a straight-line basis for book purposes over the shorter of estimated asset lives or lease terms. The more important rates are as follows:

Buildings and building equipment	2% to 6⅔%
Leaseholds	Over term of lease
Store fixtures and equipment	6⅔% to 33⅓%

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FEDERATED DEPARTMENT STORES, INC.

SCHEDULE VI—ACCUMULATED DEPRECIATION, DEPLETION AND AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT

Column A	Column B	Column C		Column D		Column E
		Additions		Deductions from reserves		
		(1)	(2)	(1)	(2)	
(thousands) Description	Balance at beginning of period	Charged to profit and loss or income	Charged to other accounts-describe	Retirements	Other-describe	Balance at close of period
		(Note A)	(Note B)		(Transfers)	
52 Weeks Ended January 31, 1987:						
Buildings, substantially all on owned land	$ 326,691	$ 43,221	$ 245	$ 25,242	$ 810	$ 345,725
Buildings on leased land, improvements to leased properties and leaseholds	174,914	32,769	—	9,163	2,461*	196,059
Store fixtures and equipment	563,568	166,458	235	102,012	—	628,249
Property not used in operations	4,238	3,418	6	222	1,651	9,091
Capitalized leases	110,199	9,247	—	10,756	—	108,690
	$1,179,610	$255,113	$ 486	$147,395	$ —	$1,287,814
52 Weeks Ended February 1, 1986:						
Buildings, substantially all on owned land	$ 303,426	$ 40,625	$ 370	$ 19,376	$ 1,646	$ 326,691
Buildings on leased land, improvements to leased properties and leaseholds	163,084	30,584	—	17,107	1,647*	174,914
Store fixtures and equipment	501,644	145,401	398	83,876	1	563,568
Property not used in operations	3,173	3,005	8	1,948	—	4,238
Capitalized leases	107,615	10,352	—	7,768	—	110,199
	$1,078,942	$229,967	$ 776	$130,075	$ —	$1,179,610
53 Weeks Ended February 2, 1985:						
Buildings, substantially all on owned land	$ 272,859	$ 44,898	$ 410	$ 14,290	$ 451*	$ 303,426
Buildings on leased land, improvements to leased properties and leaseholds	149,783	29,930	345	16,978	4	163,084
Store fixtures and equipment	447,020	133,220	616	79,216	4	501,644
Property not used in operations	6,019	429	8	3,726	443	3,173
Capitalized leases	101,317	11,518	—	5,220	—	107,615
	$ 976,998	$219,995	$ 1,379	$119,430	$ —	$1,078,942

* Deductions.

NOTES: (A) Before addition of amortization of goodwill, miscellaneous deferred income and other items of $464,000, $618,000 and $1,097,000 included in depreciation and amortization expense in the years ended January 31, 1987, February 1, 1986, and February 2, 1985, respectively.

(B) Charged to loss reserve for division in liquidation.

FEDERATED DEPARTMENT STORES, INC.

SCHEDULE VIII—VALUATION AND QUALIFYING ACCOUNTS

Column A	Column B	Column C		Column D	Column E
		Additions			
(thousands) Description	Balance at beginning of period	(1) Charged to profit and loss or income	(2) Charged to other accounts—describe (Note A)	Deductions from reserves—describe (Note B)	Balance at close of period
Accounts receivable — allowance for doubtful accounts (applied as a reduction of assets):					
Years Ended:					
January 31, 1987	$ 33,144	$ 50,558	$ 39	$ 51,094	$ 32,647
February 1, 1986	$ 32,341	$ 45,599	$ 95	$ 44,891	$ 33,144
February 2, 1985	$ 30,908	$ 33,924	$ 74*	$ 32,417	$ 32,341

* Deductions.

NOTES:

(A) Charged to loss reserve for division in liquidation.

(B) Excess of uncollectible balances written off over recoveries on accounts previously written off.

FEDERATED DEPARTMENT STORES, INC.

SCHEDULE IX—SHORT-TERM BORROWINGS

Column A	Column B	Column C	Column D	Column E	Column F
(thousands, except interest rate data) Category of aggregate short-term borrowings	Balance at end of period	Weighted average interest rate	Maximum amount outstanding during the period	Average amount outstanding during the period	Weighted average interest rate during the period
	(A)			(B)	(C)
Year Ended January 31, 1987					
Commercial paper	$220,111	6.02%	$589,245	$160,151	6.10%
Master trust notes	$ —	—%	$ 25,000	$ 10,233	7.11%
Bank loans	$ —	—%	$200,000	$ 15,385	6.63%
Composite	$ —	—%	$788,376	$185,769	6.20%
Year Ended February 1, 1986					
Commercial paper	$ —	—%	[illegible]97,735	$142,250	8.06%
Master trust notes	$ 25,000	7.74%	$125,000	$ 77,335	7.94%
Composite	$ —	—%	$393,785	$219,585	8.01%
Year Ended February 2, 1985					
Commercial paper	$268,785	8.59%	$614,688	$244,621	10.05%
Master trust notes	$125,000	7.95%	$125,000	$121,968	9.82%
Composite	$ —	—%	$689,688	$366,589	9.97%

NOTES:

(A) On February 5, 1985, the Company refinanced $100,000,000 of short-term indebtedness by issuing $100,000,000 of 11% Euronotes due February 1, 1990. Accordingly, $100,000,000 of short-term borrowings were reclassified as long-term debt at February 2, 1985.

(B) Average amount outstanding during the period is computed by dividing the total of daily outstanding principal balances by 364 for the 52 week fiscal years ended January 31, 1987, and February 1, 1986, and by 371 for the 53 week fiscal year ended February 2, 1985.

(C) Average interest rate for the year is computed by dividing the actual short-term interest expense by the average short-term debt outstanding.

FEDERATED DEPARTMENT STORES, INC.

SCHEDULE X—SUPPLEMENTARY INCOME STATEMENT INFORMATION

Column A	Column B		
	Charged to costs and expenses		
(thousands) Item	52 Weeks Ended January 31, 1987	52 Weeks Ended February 1, 1986	53 Weeks Ended February 2, 1985
Advertising costs	$ 321,268	$ 303,281	$ 287,509

NOTE:

All other information has been omitted since the amounts do not exceed 1% of the total sales reported in the related statement of income.

FEDERATED DEPARTMENT STORES, INC.

EXHIBIT OF PRIMARY AND FULLY DILUTED EARNINGS PER SHARE

	52 Weeks Ended January 31, 1987		52 Weeks Ended February 1, 1986		53 Weeks Ended February 2, 1985	
	Shares	Income	Shares	Income	Shares	Income
	(thousands, except per share data)					
Net income and average number of shares outstanding	96,905	$287,600	97,568	$286,626	97,301	$329,330
Earnings per share	$2.97		$2.94		$3 38	
Primary Computation						
Average number of common share equivalents:						
Stock options	466		321		242	
Gross share obligation for deferred compensation plan	2,553		2,567		2,746	
Application of treasury stock method — proceeds from tax savings due to market appreciation at average market price applied to purchase of treasury shares	(394)		(208)		(198)	
Adjustment of net income for dividend equivalents		1,711		1,630		1,647
Adjusted number of common and common equivalent shares outstanding and adjusted net income	99,530	$289,311	100,248	$288,256	100,091	$330,977
Primary earnings per share	$2.91		$2.88		$3.31	
Fully Diluted Computation						
Additional adjustments to a fully diluted basis:						
Stock options	32		37		58	
Convertible debentures	—	—	8	—	49	24
Reduction in shares repurchased with tax savings	13		6		10	
Adjusted number of shares outstanding and net income on a fully diluted basis	99,575	$289,311	100,299	$288,256	100,208	$331,001
Fully diluted earnings per share	$2.91		$2.87		$3.30	

Note: All share and per share data reflect the 2-for-1 common stock split on April 13, 1987.

EXHIBIT 24.1

ACCOUNTANTS' CONSENT

We consent to the incorporation by reference in the prospectus constituting part of the registration statement No. 33-11346 on Form S-3 of our reports dated March 17, 1987, (and March 26, 1987, as to Note 15) on the examination of the consolidated financial statements and supporting schedules of Federated Department Stores, Inc. included in the Annual Report on Form 10-K for the fiscal year ended January 31, 1987.

Touche Ross & Co

New York, New York
April 24, 1987

TOUCHE ROSS & CO.
Certified Public Accountants

Exhibit 3.1

RESTATED CERTIFICATE OF INCORPORATION

of

FEDERATED DEPARTMENT STORES, INC.

—————— :-: ——————

Originally Filed with the Secretary of State of the
State of Delaware, July 8, 1968
and
Amended effective
~~*May 31, 1984*~~
May 29, 1986

ASSISTANT SECRETARY

RESTATED CERTIFICATE OF INCORPORATION

OF

FEDERATED DEPARTMENT STORES, INC.

The original certificate of incorporation (Agreement of Consolidation of Federated Department Stores, Inc. was filed with the Secretary of State of Delaware on November 25, 1929. This Restated Certificate of Incorporation was duly adopted by the shareholders of Federated Department Stores, Inc., on June 4, 1968, in accordance with the provisions of Section 245 of the Delaware General Corporation Law. This Restated Certificate of Incorporation restates and integrates the original certificate of incorporation as amended or supplemented by any instrument filed with the Secretary of State of Delaware prior to June 4, 1968, and further amends the certificate of incorporation as theretofore so amended or supplemented.

ARTICLE I

The name of the corporation is

FEDERATED DEPARTMENT STORES, INC.

ARTICLE II

The address of the registered office of the corporation in Delaware is No. 100 West 10th Street, in the City of Wilmington, County of New Castle, State of Delaware. The name of its resident agent at such address is The Corporation Trust Company.

ARTICLE III

The nature of the business and objects and purposes to be transacted, promoted or carried on by the corporation are as follows:

To engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of Delaware.

To purchase, hold, sell, assign, transfer, mortgage, pledge or otherwise dispose of, trade or deal in shares of the capital stock (including rights and/or warrants) of, or any bonds, securities or evidences of indebtedness created by any other corporation or corporations organized under the laws of the State of Delaware or any other State, district, county, nation or government, and while the owner thereof, to exercise all the rights, powers and privileges of ownership.

To take, buy, purchase, exchange, hire, lease or otherwise acquire real estate and property, either improved or unimproved, and any interest or right therein, and to own, hold, control, maintain, manage, rent and develop the same in any State of the United States, or district, territory, possession, colony or commonwealth of the United States or affiliated therewith, or in any foreign country.

To erect, construct, maintain, improve, rebuild, enlarge, alter, manage and control, directly or otherwise, any and all kinds of buildings, apartments, tenements, houses, hotels, stores, offices, garages, shops, factories, machinery and plants and any and all structures and erections which may at any time be necessary, useful or advantageous for the purposes of the corporation.

To sell, mortgage, exchange, improve, develop, assign, transfer, convey, partition, lease, sublease, pledge or otherwise alienate or dispose of, and to mortgage or otherwise encumber the lands, buildings, real property, chattels real and other property of the corporation, both real and personal and wheresoever situate, and any and all legal and equitable rights or interests therein.

To purchase, sell, manufacture and deal in building materials, goods, wares and merchandise, and to carry on any and all lawful trade or business incident to or proper of useful in connection with the purchase, sale, ownership, construction, maintenance and management of real property.

To borrow money, with or without giving security, and to issue bonds, debentures or obligations of the corporation from time to time, for any of the objects or purposes of the corporation, and to secure the same by mortgage, pledge, deed of trust on any or all of its real or personal property, or otherwise.

To buy, sell or otherwise deal in notes, open accounts and other similar evidences of debt, and to loan money and to take notes, open accounts and other similar evidences of debt as collateral security therefor, and to loan and advance money upon mortgages on real and personal property, or on either of them.

To buy, sell and deal in bonds and mortgages and other like securities and other kinds of property, whether real or personal, not prohibited or specially excepted by any law, and to do and prosecute any acts and things incident to or proper in connection with the carrying on of the business of the corporation.

To acquire, and pay for in cash, stock or bonds of the corporation, or otherwise, and to improve or develop, all or any part of the business, good will, rights, assets and property, and to undertake or assume the whole or any part of the obligations or liabilities, of any person, firm, association or corporation.

To purchase, hold, sell and transfer the shares of its own capital stock; provided it shall not use its funds or property for the purchase of its own shares of capital stock when such use would cause any impairment of its capital; and provided further that shares of its own capital stock belonging to it shall not be voted directly or indirectly.

To have one or more offices, to carry on all or any of its operations and business and without restriction or limit as to amount, to purchase or otherwise acquire, hold, own, manage, mortgage, sell, convey, or otherwise dispose of real and personal property of every class and description, in any State of the United States, or territory, district, possession, colony or commonwealth of the United States or affiliated therewith and in any foreign country, subject to the laws of such state, district, territory, possession, colony, commonwealth or country.

Generally to purchase or otherwise acquire, dispose of and deal in real and personal property of any and all kinds that may be lawfully acquired and held by a business corporation, including copyrights, trademarks, trade names, brands, labels, patents, patent rights, licenses, grants and concessions, and to sell, assign, transfer or grant any interests therein.

To act as agent or representative of corporations, firms and individuals.

To do any or all of the things herein set forth to the same extent as natural persons might or could do, and in any part of the world.

To do all and everything necessary or proper for the accomplishment of the objects herein enumerated, or necessary or incidental to the protection and benefit of the corporation, and generally to carry on any lawful business necessary or convenient to the attainment of the objects and purposes of the corporation, whether such business is similar in nature to the objects and purposes hereinabove set forth or otherwise; but nothing herein contained is to be construed as authorizing the corporation to issue bills, notes or other evidences of debt for circulation as money or to carry on the business of receiving deposits of money or the business of buying gold and silver bullion or foreign coins.

The foregoing clauses shall be construed as objects, purposes and powers, and all purposes and powers specified in each of the clauses of this Article III shall be regarded as independent purposes and powers, and the specification herein contained of the particular powers is not intended to be, and is not, in limitation but in furtherance of the power granted to corporations under the General Corporation Law of Delaware, which the corporation shall possess, to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of Delaware.

ARTICLE IV

The corporation is to have perpetual existence.

ARTICLE V

The private property of the shareholders of the corporation shall not be subject to the payment of corporate debts to any extent whatever.

ARTICLE VI

The total number of shares of all classes of stock which the corporation shall have authority to issue is ~~105,000,000~~ 205,000,000 shares, of which 5,000,000 shares shall be shares of Preferred Stock, without par value (hereinafter called "Preferred Stock"), and ~~100,000,000~~ 200,000,000 shares shall be shares of Common Stock of the par value of One Dollar and Twenty-five Cents ($1.25) per share (hereinafter called "Common Stock"). *(Amended Effective ~~May 31, 1984~~ May 29, 1986)*

The designations and the powers, preferences and rights, and the qualifications, limitations or restrictions thereof, of each class of stock shall be governed by the following provisions:

1. The board of directors is expressly authorized at any time, and from time to time, to provide for the issuance of shares of Preferred Stock in one or more series, with such voting powers, full or limited, or without voting powers and with such designations, preferences and relative, participating, optional or other special rights, and qualifications, limitations or restrictions thereof, as shall be stated and expressed in the resolution or resolutions providing for the issue thereof adopted by the board of directors, and as are not stated and expressed in the certificate of incorporation of the corporation, including (but without limiting the generality thereof) the following

(a) The number of shares to constitute each such series, and the designation of each such series.

(b) The dividend rate of each such series, the conditions and dates upon which such dividends shall be payable, the relation which such dividends shall bear to the dividends payable on any other class or classes or on any other series of any class or classes of stock, and whether such dividends shall be cumulative or non-cumulative.

(c) Whether the shares of each such series shall be subject to redemption by the corporation and, if made subject to such redemption, the times, prices and other terms and conditions of such redemption.

(d) The terms and amount of any sinking fund provided for the purchase or redemption of the shares of each such series.

(e) Whether or not the shares of each such series shall be convertible into or exchangeable for shares of any other class or classes or of any other series of any class or classes of stock of the corporation, and if provision be made for conversion or exchange, the times, prices, rates of exchange, adjustments, and other terms and conditions of such conversion or exchange.

(f) The extent, if any, to which the holders of the shares of each such series shall be entitled to vote with respect to the election of directors or otherwise.

(g) The restrictions, if any, on the issue or reissue of any additional Preferred Stock.

(h) The rights of the holders of the shares of each such series upon the dissolution of, or upon the distribution of assets of, the corporation.

2. Except as otherwise required by law and except for such voting powers with respect to the election of directors or other matters as may be stated in the resolutions of the board of directors creating any series of Preferred Stock, the holders of any such series shall have no voting power whatsoever. Any amendment to the certificate of incorporation of the corporation which shall increase or decrease the number of authorized shares of any class or classes of stock may be adopted by the affirmative vote of the holders of a majority of the stock of the corporation entitled to vote.

3. Subject to the powers, preferences, rights, qualifications, limitations and restrictions with respect to each class, including any series thereof, of stock of the corporation having any preference or priority over the Common Stock, the holders of the Common Stock shall have and possess all powers and rights pertaining to the stock of the corporation.

ARTICLE VII

No holder of stock of any class shall be entitled as of right to subscribe to any additional or increased stock of any class, whether now or hereafter authorized, or obligations convertible into any class or classes of stock or stock of any class convertible into stock of any other class or classes, and/or obligations, stock or other securities carrying warrants or rights to subscribe to the stock of the corporation, of any class or classes, and the board of directors may, without offering any such increased or addtional stock or obligations or other securities to the holders of the stock of any class, sell or dispose of the same for any consideration, to such persons, firms or corporations as the board may from time to time in its absolute discretion determine.

The board of directors may set apart out of any of the funds of the corporation available for dividends, a reserve or reserves for any proper purpose, or may abolish any such reserve in the manner in which it was created.

ARTICLE VIII

In furtherance and not in limitation of the powers conferred by law, the board of directors of the corporation is expressly authorized to make, alter, amend and repeal the by-laws of the corporation, provided that any such action by the board of directors in making, altering, amending or repealing the by-laws of the corporation shall require the votes of three-fourths (¾) of the members thereof and provided further that any amendments made by the board of directors may be added to, rescinded or repealed by the shareholders at any general or special meeting, except as provided in the succeeding sentence. Except to the extent prohibited by law, the board of directors shall have the right (which, to the extent exercised, shall be exclusive) to establish the rights, powers, duties, rules and procedures that from time to time shall govern the board of directors and each of its members, including without limitation the vote required for any action by the board of directors, and that from time to time shall affect the directors' power to manage the business and affairs of the corporation; and no by-law shall be adopted by shareholders which shall impair or impede the implementation of the foregoing.

ARTICLE IX

No contract or transaction between the corporation and one or more of its directors or officers, or between the corporation and any other corporation, partnership, association, or other organization in which one or more of its directors or officers are directors or officers, or have a financial interest, shall be void or voidable solely for this reason, or solely because the director or officer is present at or participates in the meeting of the board of directors or committee thereof which authorizes the contract or transaction, or solely because his or their votes are counted for such purpose, if:

(a) the material facts as to his interest and as to the contract or transaction are disclosed or are known to the board of directors or the committee, and the board or committee in good faith authorizes the contract or transaction by a vote sufficient for such purpose without counting the vote of the interested director or directors; or

(b) the material facts as to his interest and as to the contract or transaction are disclosed or are known to the shareholders entitled to vote thereon, and the contract or transaction is specifically approved in good faith by vote of the shareholders; or

(c) the contract or transaction is fair as to the corporation as of the time it is authorized, approved or ratified, by the board of directors, a committee thereof, or the shareholders.

Interested directors shall be counted in determining the presence of a quorum at a meeting of the board of directors or of a committee which authorizes such contract or transaction. No director or officer shall be liable to account to the corporation for any profit realized by him from or through such contract or transaction solely by reason of the fact that he or any other corporation, partnership, association, or other organization in which he is a director or officer, or has a financial interest, was interested in such contract or transaction.

ARTICLE X

The corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding, in accordance with the laws of the State of Delaware, and to the full extent permitted by said laws except as the by-laws of the corporation may otherwise provide. Such indemnification shall not be deemed exclusive of any other rights to which those seeking indemnification may be entitled under any by-law, agreement, vote of shareholders or disinterested directors or otherwise, including insurance purchased and maintained by the corporation, both as to action in his official capacity and as to action in another capacity while holding such office, and shall continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of the heirs, executors and administrators of such a person.

ARTICLE XI

The corporation reserves the right to amend, alter, change or repeal any provisions contained in its certificate of incorporation in the manner now or hereafter prescribed by the laws of the State of Delaware and all rights conferred upon the shareholders herein are granted subject to this reservation.

ARTICLE XII

Every law of the State of Delaware hereafter enacted whereby the rights, powers or privileges of shareholders of corporations organized under the General Corporation Law of said State are increased, diminished or in any way affected, and every law of the State of Delaware heretofore or hereafter enacted whereby effect is given to any action taken by any part less than all of the shareholders of any such corporation, shall apply to the corporation and shall be binding not only upon the corporation but upon every shareholder thereof.

ARTICLE XIII

The business and affairs of the corporation shall be managed by or under the direction of a board of directors consisting of not less than three nor more than twenty directors, the exact number of directors to be determined from time to time by resolution adopted by affirmative vote of a majority of the entire board of directors. The directors shall be divided into three classes, designated Class I, Class II and Class III. Each class shall consist, as nearly as may be possible, of one-third of the total number of directors constituting the entire board of directors. At the 1984 annual meeting of shareholders, Class I directors shall be elected for a one-year term, Class II directors for a two-year term and Class III directors for a three-year term. At each succeeding annual meeting of shareholders beginning in 1985, successors to the class of directors whose term expires at that annual meeting shall be elected for a three-year term. If the number of directors is changed, any increases or decreases shall be apportioned among the classes so as to maintain the number of directors in each class as nearly equal as possible, and any additional director of any class elected to fill a vacancy resulting from an increase in such class shall hold office for a term that shall coincide with the remaining term of that class, but in no case will a decrease in the number of directors shorten the term of any incumbent director. A director shall hold office until the annual meeting for the year in which his term expires and until his successor shall be elected and shall qualify, subject, however, to prior death, resignation, retirement, disqualification or removal from office. Any vacancy on the board of directors that results from an increase in the number of directors may be filled by a majority of the board of directors then in office, and any other vacancy occurring in the board of directors may be filled by a majority of the directors then in office, although less than a quorum, or by a sole remaining director. Any director elected to fill a vacancy not resulting from an increase in the number of directors shall have the same remaining term as that of his predecessor.

Notwithstanding the foregoing, whenever the holders of any one or more classes or series of preferred stock issued by the corporation shall have the right, voting separately by class or series, to elect directors at an annual or special meeting of shareholders, the election, term of office, filling of vacancies and other features of such directorships shall be governed by the terms of this Restated Certificate of Incorporation applicable thereto, and such directors so elected shall not be divided into classes pursuant to this Article XIII unless expressly provided by such term.

ARTICLE XIV

Any action required or permitted to be taken by the holders of the common stock of the corporation must be effected at a duly called annual or special meeting of such holders and may not be effected by any consent in writing by such holders.

Exhibit 3.2

FEDERATED DEPARTMENT STORES, INC.

By - Laws

Revisions Adopted ~~April 26, 1984~~ January 24, 1986
and October 17, 1986

ASSISTANT SECRETARY

TABLE OF CONTENTS

BY-LAWS

OF

FEDERATED DEPARTMENT STORES, INC.

Name

1. The name of this corporation is FEDERATED DEPARTMENT STORES, INC.

Offices

2. The registered office of the corporation in the State of Delaware is located at No. 100 West 10th Street in the City of Wilmington, County of New Castle, and the name and address of its registered agent in the State of Delaware is The Corporation Trust Company, No. 100 West 10th Street, Wilmington, Delaware.

The Corporation may also have offices in the City of Cincinnati, State of Ohio, in the City of New York, State of New York, and in such other places as the board of directors may from time to time designate.

Corporate Seal

3. The corporate seal shall be circular in form and have inscribed thereon the name of the corporation, the year of its incorporation (1929) and the words "Incorporated Delaware."

Meetings of Stockholders

4. All meetings of stockholders shall be held at such location in the said City of Wilmington, in the said City of Cincinnati, in the said City of New York, or in such other places as the board of directors may from time to time designate.

The annual meeting of stockholders shall be held on the last Thursday in May in each year (if that day falls on a legal holiday, then on the next day following that is not a legal holiday), at such time as the board of directors may designate, at which meeting they shall elect by written ballot, by plurality vote, a board of directors. Any other proper business may be transacted at said annual meeting. See addition of October 17, 1986 attached at end

A complete list of stockholders entitled to vote at any meeting of the stockholders, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder, shall be prepared by the secretary and shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten days prior to the meeting, either at a place within the city, town or village where the meeting is to be held and which place shall be specified in the notice of the meeting, or if not so specified, at the place where said meeting is to be held, and the list shall be produced and kept at the time and place of the meeting during the whole time thereof and subject to the inspection of any stockholder who may be present.

Special meetings of the stockholders may be called by the chairman of the board of directors or the president of the corporation, and shall be called on request by a majority of the members of the board of directors.

A request for a special meeting shall state the purpose or purposes for which it is being called. The notice of a special meeting shall state this purpose or these purposes, which may be enlarged but not diminished at the written request of an officer authorized to call a special meeting. Only matters stated in the notice or notices calling a special meeting shall be considered at such meeting.

Notice of the place, date and hour of each meeting at which the stockholders are required or permitted to take any action shall be given by the secretary or an assistant secretary to each stockholder of record entitled to vote at the meeting, not less than ten days nor more than fifty days prior thereto, unless otherwise provided in the General Corporation Law of the State of Delaware.

A stockholder may vote by proxy executed in writing by the stockholder.

The holders of shares of stock outstanding and entitled to exercise a majority of the voting power shall constitute a quorum for the transaction of business at any meeting, but a lesser number may adjourn from time to time.

Directors

5. The property and business of the corporation shall be managed and controlled by its board of directors, who shall be not less than three in number nor more than twenty.

The number of directors may, subject as aforesaid, from time to time be increased or decreased by vote of a majority of the directors then in office, although less than a quorum, provided that except as hereinafter provided, no action reducing the number of directors shall have the effect of removing any director from office.

Each director shall hold his office until his successor is elected and qualified or until his earlier resignation or removal. The directors shall be elected by the stockholders, except that if there be a vacancy in the board by reason of death, resignation, action of the board or of the stockholders, or otherwise, such vacancy shall be filled for the unexpired term by a majority of the directors then in office, although less than a quorum.

Powers of Directors

6. The board of directors shall have, in addition to such powers as are elsewhere in these by-laws expressly conferred on it, all such powers as may be exercised by the corporation, subject to the provisions of the applicable law, the certificate of incorporation of this corporation and the by-laws of this corporation.

The board of directors shall, without restricting the preceding generality, have power to appoint and hire employees, agents, clerks, assistants, factors, servants and trustees, and to dismiss them at its discretion, to fix their duties and emoluments and to change them from time to time and to require security as it may deem proper, and shall have power to create divisions and to prescribe by-laws for the operation of the business, affairs and property of the corporation by such divisions. In the event of any disagreement between the provisions of the by-laws of the corporation and the by-laws of a division, the by-laws of the corporation shall prevail.

Meetings of Directors

7. After each annual election of directors, the newly elected board of directors may meet for the purpose of organization, the election of officers, and the transaction of other business.

Regular meetings of the board of directors may be held without notice at such time and place either within or without the State of Delaware as shall from time to time be fixed by the board of directors.

Special meetings of the board of directors may be called by the chairman of the board of directors or by the president on three days' notice in writing or on two days' notice by telegraph to each director and shall be called by the chairman of the board of directors or by the president in like manner on the written request of two directors.

Special meetings of the board of directors may be held in the States of Ohio, New York, Delaware or such other states as may be determined by a majority of the board of directors and at such place therein as is indicated in the notice or waiver of notice thereof.

Except as in these by-laws and/or the certificate of incorporation of this corporation otherwise provided, a majority of the total number of directors shall constitute a quorum for the transaction of business, but a smaller number may adjourn sine die and/or from time to time without further notice, until a quorum is secured; provided further that one-third of the total number of directors (but not less than three) shall be a sufficient quorum to consider any proposed resolution which shall have received the previous written assent of not less than a majority of the total number of directors. Reference in the preceding sentence to "the total number of directors" means the number constituting the whole board of directors. All action of the board of directors shall require the affirmative vote and/or written assent as aforesaid of a majority of the total number of directors, except as in these by-laws and/or the certificate of incorporation of this corporation otherwise specifically provided. Any action required or permitted to be taken at any meeting of the board of directors may be taken without a meeting if all members of the board of directors consent thereto in writing and the writing or writings are filed with the minutes of proceedings of the board of directors.

Members of the board of directors, or any committee designated by the board of directors, may participate in a meeting of the board of directors or of such committee by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting pursuant to this paragraph shall constitute presence in person at such meeting.

Executive Committee

8. The board of directors by vote of a majority of the whole board of directors shall designate an executive committee of not less than seven members of the board of directors, one of whom shall be the chairman of the board of directors, and one of whom shall be the president; the executive committee shall have and may exercise the powers of the board of directors, except the power to declare dividends, to amend the by-laws, elect officers, or rescind or modify any prior action of the board of directors and except as otherwise provided by law. It shall also render such advisory services as may be requested by the chairman of the board of directors or the president. It shall keep minutes of action taken by it, copies of which shall be submitted to the members of the board of directors currently after the meetings of the executive committee. It shall meet upon call of the chairman of the executive committee, the chairman of the board of directors, the president or any two members of the committee on three days' notice in writing or on two days' notice by telephone or telegraph to each member of the committee.

The executive committee shall fix its own rules of procedure. A majority of the whole committee shall constitute a quorum. All action of the committee shall require the affirmative vote of a majority of the whole committee.

The board of directors may designate one or more directors as alternate members of the executive committee, who may replace any absent or disqualified member at any meeting of the committee. In lieu of such action by the board of directors, in the absence or disqualification of any member of the executive committee, the members thereof present at any such meeting of the executive committee and not disqualified from voting, whether or not they constitute a quorum, may unanimously appoint another member of the board of directors to act at the meeting in the place of any such absent or disqualified member.

Any action required or permitted to be taken at any meeting of the executive committee may be taken without a meeting if all members of the committee consent thereto in writing and the writing or writings are filed with the minutes of proceedings of the committee. The certificate of the secretary or an assistant secretary that the action taken by the executive committee was so taken during an interval between meetings of the board of directors shall be conclusive evidence of the fact in [redacted]ereon.

Other Committees

9. From time to time the board of directors may by vote of a majority of the whole board of directors designate any other committee or committees for any purpose, which shall have such powers as shall be specified in the resolution designating such committee or committees.

Compensation of Directors and Committee Members

10. Directors shall receive such compensation as members of the board of directors and/or for attendance at each meeting of the board of directors, and members of committees shall receive such compensation as members and/or for attendance at each meeting of a committee, as the board of directors shall from time to time prescribe.

Any director may also serve the corporation in any other capacity and receive compensation therefor.

Officers of the Corporation

11. The officers of the corporation shall be a chairman of the board of directors, president, chairman of the executive committee, one or more vice chairmen of the board of directors, one or more assistants to the chairman of the board of directors, one or more group presidents, one or more executive vice presidents, one or more senior vice presidents, one or more vice presidents, a secretary, treasurer and controller, and such other officers, including one or more assistant secretaries, assistant treasurers and assistant controllers, as may from time to time be appointed by the board of directors. Any of the aforesaid offices may be left vacant from time to time as the board of directors may determine; provided that the applicable requirements of the General Corporate Law of the State of Delaware are met. During the periods of any such vacancy, the powers and duties of such office shall be delegated to such other officer or officers as the board of directors may determine.

Election of Officers

12. The board of directors shall elect from their own number a chairman of the board of directors, a president [redacted] and a chairman of the executive committee from among the members of the executive committee. The board of directors may elect from their own number an honorary chairman of the board of directors. The remaining officers shall be chosen by, but need not be chosen from among, the directors. Each officer shall hold his office until his successor is elected and qualified or until his earlier resignation or removal. Any vacancy occurring in any office by reason of death, resignation, removal or otherwise, shall be filled by the board of directors.

Honorary Chairman of the Board of Directors

13. The honorary chairman of the board of directors shall perform such duties as the board of directors shall from time to time prescribe and as shall be consistent with the dignity of his office.

Chairman of the Board of Directors

14. The chairman of the board of directors shall be the chief executive officer of the corporation and shall have general supervision of the corporation.

He and the president shall submit a report of the operations of the corporation for each fiscal year, approved by the board of directors, to the stockholders at their annual meeting.

He shall preside at meetings of the board of directors and of the stockholders. He shall be ex officio a member of the executive committee and shall preside at meetings thereof in the absence of the chairman of such committee.

He shall have power to appoint proxies to vote stock of other corporations owned by this corporation.

He shall perform such other duties consistent with the dignity of his office as the board of directors may from time to time determine.

President

15. The president shall be the chief operating officer of the corporation and shall, consistent with the authority of the chairman of the board of directors, have active management of the operations of the corporation.

He shall preside at meetings of the stockholders in the absence of the chairman of the board of directors.

He shall preside at meetings of the board of directors in the absence of the chairman of the board of directors.

He shall be ex officio a member of the executive committee and shall preside at meetings thereof in the absence of the chairman of such committee and of the chairman of the board of directors.

He shall have power to appoint proxies to vote stock of other corporations owned by this corporation.

He shall perform such other duties consistent with the dignity of his office as the board of directors may from time to time determine.

Chairman of the Executive Committee

16. The chairman of the executive committee shall preside at meetings of the executive

committee. He shall also perform such other duties consistent with the dignity of his office as may from time to time be prescribed by the board of directors.

Vice Chairmen of the Board of Directors

17. The vice chairmen of the board of directors shall perform such duties consistent with the dignity of their office as may from time to time be prescribed by the board of directors, the chairman of the board of directors, or the president. In the absence or disability of the chairman of the board of directors and the president, the vice chairman designated for that purpose by the chairman of the board of directors may perform the duties and exercise the powers of the chairman of the board of directors and the president to the extent specified by the chairman of the board of directors.

Assistants to Chairman of the Board of Directors

18. The assistants to the chairman of the board shall perform such duties consistent with the dignity of their office as may from time to time be prescribed by the board of directors, or the chairman of the board of directors.

Group Presidents

19. The group presidents shall perform such duties consistent with the dignity of their office as may from time to time be prescribed by the board of directors, the chairman of the board of directors or the president.

Executive Vice Presidents

20. The executive vice presidents shall perform such duties consistent with the dignity of their office as may from time to time be prescribed by the board of directors, the chairman of the board of directors or the president.

Senior Vice Presidents

21. The senior vice presidents shall perform such duties consistent with the dignity of their office as may from time to time be prescribed by the board of directors, the chairman of the board of directors or the president.

Vice Presidents

22. The vice presidents shall perform such duties consistent with the dignity of their office as may from time to time be prescribed by the board of directors, the chairman of the board of directors or the president.

Secretary

23. The secretary shall be secretary of and shall attend all meetings of the stockholders, the board of directors and the executive committee. He shall record all of the proceedings of such meetings in a book kept for that purpose. He shall cause to be given proper notice of meetings of stockholders, the board of directors, and the executive committee and shall perform such other duties as shall be assigned to him. He shall keep the seal of the corporation and shall have the power to affix it to any instrument requiring it and attest the same.

He shall perform such other duties as the board of directors, the chairman of the board of directors or the president may from time to time prescribe.

Treasurer

24. The treasurer shall have the management and custody of the funds and securities of the corporation and he or persons designated by him (or by others so authorized by the board of directors) shall deposit all moneys and other valuable effects in the name and to the credit of the corporation in such depositaries as may be designated by the board of directors or by persons authorized by the board of directors to make such designations.

He shall receive and disburse the funds of the corporation for corporate purposes, and shall render to the chairman of the board of directors, the president and the board of directors, whenever they may require it, an account of all his transactions as treasurer.

He shall cause to be kept an account of stock registered and transferred in such manner and subject to such regulations as the board of directors may prescribe.

He shall perform such other duties as the board of directors, the chairman of the board of directors or the president may from time to time prescribe.

Controller

25. The controller shall keep full and accurate accounts of all assets, liabilities, commitments, receipts, disbursements and other financial transactions of the corporation, including those of divisions and subsidiaries of the corporation as kept by them, in books belonging to the corporation, and shall perform all other duties required of the accounting officer of the corporation, and shall render to the chairman of the board of directors, the president and the board of directors, whenever they may require it, an account of the financial condition of the corporation.

He shall perform such other duties as the board of directors, the chairman of the board of directors or the president may from time to time prescribe.

Assistant Secretaries

26. The board of directors may appoint one or more assistant secretaries to serve during the pleasure of the board of directors, who shall perform such of the duties of the secretary as the chairman of the board of directors, the president or the secretary may from time to time prescribe, and such other duties as the board of directors may from time to time prescribe.

Assistant Treasurers

27. The board of directors may appoint one or more assistant treasurers to serve during the pleasure of the board of directors, who shall perform such of the duties of the treasurer as the chairman of the board of directors, the president or the treasurer may from time to time prescribe, and such other duties as the board of directors may from time to time prescribe.

Assistant Controllers

28. The board of directors may appoint one or more assistant controllers to serve during the pleasure of the board of directors, who shall perform such duties of the controller as the chairman of the board of directors, the president or the controller may from time to time prescribe, and such other duties as the board of directors may from time to time prescribe.

Delegation of Officers' Duties

29. In the case of the absence or disability of any officer of the corporation or for any other reason deemed sufficient by a majority of the board of directors, the board of directors may delegate his powers or duties to any other officer or to any director for the time being.

Removal of Officers

30. Any officer may be removed by the board of directors whenever in its judgment the best interests of the corporation will be served by so doing.

Record Dates

31. The board of directors may fix in advance a date not exceeding sixty days nor less than ten days preceding the date of any meeting of stockholders, or the date for the payment of any dividend or other distribution, or the date for the allotment of rights, or the date when any change or conversion or exchange of stock shall go into effect, or for the purpose of any other lawful action, as a record date for the determination of the stockholders entitled to notice of or to vote at any such meeting and any adjournment thereof, or entitled to receive payment of any dividend or other distribution, or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock, or entitled to take or participate in any other lawful action, and in such case such stockholders and only such stockholders as shall be stockholders of record on the date so fixed, shall be entitled to such notice of or to vote at such meeting and any adjourment thereof, or to receive payment of such dividend or other distribution, or to receive such allotment of rights, or to exercise such rights, or to take or participate in any other lawful action, as the case may be, notwithstanding any transfer of any stock on the books of the corporation after any such record date fixed as aforesaid.

The corporation shall be entitled to treat the holder of record of any share or shares of stock as the holder in fact thereof and accordingly shall not be bound to recognize any equitable or other claim to or interest in such share on the part of any other person, whether or not it shall have express or other notice thereof, save as expressly provided by the laws of Delaware.

Certificates of Stock

32. Certificates of stock shall be signed by the chairman or vice chairman of the board of directors, or the president or an executive vice president, and by the treasurer, or an assistant treasurer, or the secretary or an assistant secretary; provided, however that where such certificate is countersigned by a transfer agent other than the corporation or its employee, or by a registrar other than the corporation or its employee, any other signature on the certificate may be a facsimile. In case any officer or officers, transfer agent or registrar who shall have signed, or whose facsimile signature or signatures shall have been placed on, any such certificate or certificates shall cease to be such officer or officers of the corporation, transfer agent or registrar, whether because of death, resignation or otherwise, before such certificate or certificates shall have been issued by the corporation, such certificate or certificates may nevertheless be issued and delivered as though the person or persons who signed such certificate or certificates or whose facsimile signatures shall have been placed thereon were such officer or officers of the corporation, transfer agent or registrar at the date of issue.

If a certificate of stock be lost, stolen or destroyed, another may be issued in its stead upon satisfactory proof of such loss, theft or destruction and the giving to the corporation of a bond sufficient to indemnify it against any claim that may be made against it on account of the alleged loss, theft or destruction of any such certificate or the issuance of such new certificate.

Fiscal Year

33. The fiscal year of the corporation shall be the period of twelve months ending on the Saturday nearest to January 31 (or January 31 if that be a Saturday) of each year.

Dividends

34. Dividends upon the capital stock may be declared by the board of directors at any regular or special meeting. Before paying any dividend or making any distribution of profits, there may be set aside out of the funds of the corporation available for dividends such sum or sums as the board of directors from time to time, in its absolute discretion, thinks proper as a reserve fund to meet contingencies or for equalizing dividends or for repairing or maintaining any property of the corporation or for such other proper purpose as the board of directors shall think conducive to the best interests of the corporation. The board of directors may at any time abolish any such reserve.

Notices

35. Notice required to be given under the provisions of these by-laws to any stockholder, director or officer may be given in writing by depositing the same in the United States mail, postage prepaid, directed to such stockholder, director or officer at his or her address as it appears on the records of the corporation or, in the case of a director or officer, to his residence or usual place of business, and such notice shall be deemed to be given at the time when the same shall be thus mailed.

Waiver of Notice

36. Any stockholder, director or officer may waive, in writing, any notice required to be given under these by-laws, whether before or after the time stated therein.

Emergency By-Laws

37. During any emergency resulting from an attack on the United States or on a locality in which the corporation conducts its business or customarily holds meetings of its board of directors or its stockholders, or during any nuclear or atomic disaster, or during the existence of any catastrophe, or other similar emergency condition, as a result of which a quorum of the board of directors of the corporation or of the executive committee of the

corporation cannot readily be convened for action, a meeting of the board of directors or of said committee may be called by any officer or director. Such notice may be given only to such of the directors or members of the committee, as the case may be, as it may be feasible to reach at the time and by such means as may be feasible at the time, including publication or radio.

The director or directors in attendance at the meeting of the board of directors, and the member or members of the executive committee in attendance at the meeting of the committee, shall constitute a quorum. If none are in attendance at the meeting, the officers or other persons designated on a list approved by the board of directors before the emergency, all in such order of priority and subject to such conditions and for such period of time (not longer than reasonably necessary after the termination of the emergency) as may be provided in the resolution approving the list, shall, to the extent required to provide a quorum at any meeting of the board of directors or of the executive committee, be deemed directors or members of the committee, as the case may be, for such meeting.

The board of directors, either before or during any such emergency, may provide, and from time to time modify, lines of succession in the event that during such emergency any or all officers or agents of the corporation shall for any reason be rendered incapable of discharging their duties. The board of directors, either before or during any such emergency, may, effective in the emergency, change the head office or designate several alternative head offices or regional offices, or authorize the officers so to do.

Amendments of By-Laws

38. Subject to the provisions of the certificate of incorportion of this corporation, these by-laws may be amended, altered, repealed or added to at any regular meeting of the stockholders or at any special meeting of the stockholders called for that purpose, or at any meeting of the board of directors, by affirmative vote of the holders of shares of stock outstanding and entitled to exercise a majority of the voting power, or by three-fourths of the whole board of directors, as the case may be.

October 17, 1986, Addition to By-Laws

Only persons who are nominated in accordance with the following procedures shall be eligible for election as directors of the corporation. Nominations of persons for election as directors of the corporation may be made at a meeting of stockholders only (i) by or at the direction of the Board of Directors, (ii) by any nominating committee or person appointed by the Board or (iii) by any stockholder of the corporation entitled to vote for the election of Directors at the meeting who complies with the notice procedures set forth in this Section 4. Such nomination, other than those made by or at the direction of the Board or by any nominating committee or person appointed by the Board, shall be made pursuant to timely notice in writing to the Secretary of the corporation. To be timely, a stockholder's notice shall be delivered to or mailed and received at the principal executive offices of the corporation not less than 50 days nor more than 75 days prior to the meeting; provided, however, that in the event that less than 65 days' notice or prior public disclosure of the date of the meeting is given or made to stockholders, notice by the stockholder to be timely must be so received not later than the close of business on the 15th day following the day on which such notice of the date of the meeting was mailed or such public disclosure was made, whichever first occurs. Such stockholder's notice to the Secretary shall set forth (a) as to each person whom the stockholder proposes to nominate for election or re-election as a director, (i) the name, age, business address and residence address of the person, (ii) the principal occupation or employment of the person, (iii) the class and number of shares of capital stock of the corporation which are beneficially owned by the person and (iv) any other information relating to the person that is required to be disclosed in solicitations for proxies for election of directors pursuant to Rule 14a under the Securities Exchange Act of 1934, as now or hereafter amended; and (b) as to the stockholder giving the notice (i) the name and record address of such stockholder and (ii) the class and number of shares of capital stock of the corporation which are beneficially owned by such stockholder. The corporation may require any proposed nominee to furnish such other information as may reasonably be required by the corporation to determine the eligibility of such proposed nominee to serve as director of the corporation. No person shall be eligible for election as a director of the corporation unless nominated in accordance with the procedures set forth herein.

The Chairman of the meeting shall, if the facts warrant, determine and declare to the meeting that a nomination was not made in accordance with the foregoing procedure, and if he should so determine, he shall so declare to the meeting and the defective nomination shall be disregarded.

To be properly brought before the annual meeting of stockholders, other business must be either (a) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the board, (b) otherwise properly brought before the meeting by or at the discretion of the board, or (c) otherwise properly brought before the meeting by a stockholder. In addition to any other applicable requirements, for business to be properly brought before an annual meeting by a stockholder, the stockholder must have given timely notice thereof in writing to the Secretary of the corporation. To be timely, a stockholder's notice must be delivered to or mailed and received at the principal executive offices of the corporation, not less than 50 days nor more than 75 days prior to the meeting; provided, however, that in the event that less than 65 days' notice or prior public disclosure of the date of the meeting is given or made to stockholders, notice by the stockholder to be timely must be so received not later than the close of business on the 15th day following the day on which such notice of the date of the annual meeting was mailed or such public disclosure was made, whichever first occurs. A stockholder's notice to the Secretary shall set forth with respect to each matter the stockholder proposes to bring before the annual meeting (i) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (ii) the name and record address of the stockholder proposing such business, (iii) the class and number of shares of the corporation which are beneficially owned by the stockholder, and (iv) any material interest of the stockholder in such business.

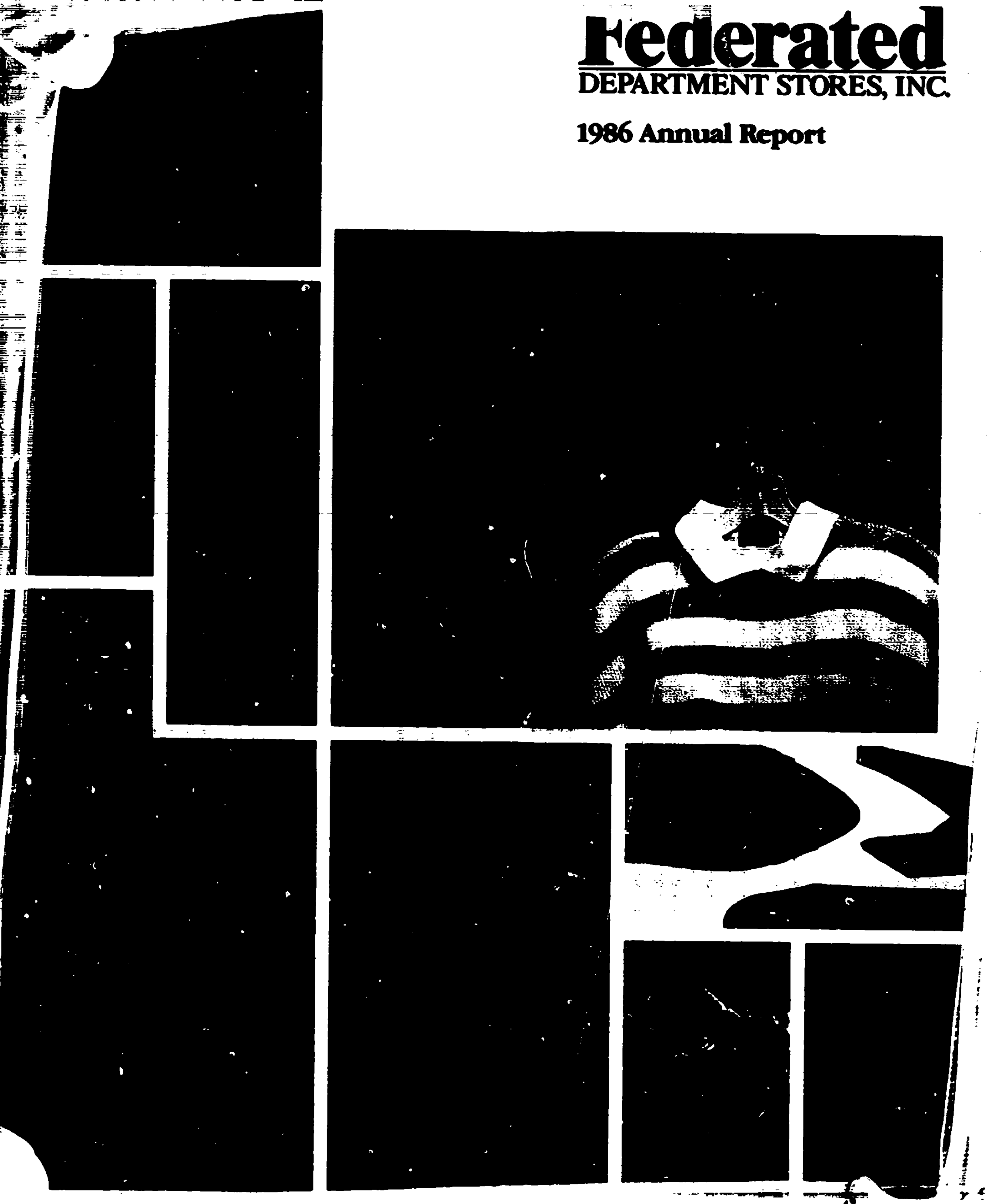
Notwithstanding anything in the By-Laws to the contrary, no business shall be conducted at the annual meeting except in accordance with the procedures set forth in this Section 4, provided, however, that nothing in this Section 4 shall be deemed to preclude discussion by any stockholder of any business properly brought before the annual meeting.

The Chairman of an annual meeting shall, if the facts warrant, determine and declare to the meeting that business was not properly brought before the meeting in accordance with the provisions of this Section 4, and if he should so determine, he shall so declare to the meeting, and any such business not properly brought before the meeting shall not be transacted.

Exhibit 13.1

Federated
DEPARTMENT STORES, INC.

1986 Annual Report



Financial Highlights	1986	1985	1984
Net Sales	$10.512 billion	[illegible]	[illegible]
[illegible]			
[illegible]			
[illegible]	$302 million	[illegible]	[illegible]
Extraordinary [illegible]	($14 million)	[illegible]	[illegible]
[illegible]	$288 million	[illegible]	[illegible]
[illegible]			
[illegible]			
[illegible]	$3.12	[illegible]	[illegible]
[illegible]	($.15)	[illegible]	[illegible]
[illegible]	$2.97	[illegible]	[illegible]
[illegible]	$1.3[illegible]	[illegible]	[illegible]
[illegible]			
[illegible]	10.[illegible]%	[illegible]	[illegible]
[illegible]	11.2%	[illegible]	[illegible]
[illegible]		[illegible]	

Contents

Federated

DEPARTMENT STORES, INC.

Annual Report
For 52-week Fiscal Year
Ended January 31, 1987

Federated Department Stores, Inc., is a diversified retail firm serving customers across the nation through its department stores, mass merchandising stores, supermarkets and other retail divisions. Federated is a company of clear purpose. We intend to provide value to our customers, a good and fair return to our shareholders, opportunity for growth and advancement to our associates and support to the communities in which we do business.

The corporation concluded 1986 with 15 operating divisions and 651 stores in the major retail markets of 36 states. Federated is a decentralized company and each of our divisions reflects the needs of the consumers it serves in the merchandise it sells, its store atmosphere, its personal service and its community involvement.

Federated's stores are highly marketing oriented, with each positioned to offer a specific range of merchandise and services to a dynamic and demanding consumer group.

Dear Fellow Shareholders:

1986 was a year of vital decisions for Federated — a year in which we absorbed substantial short-term costs in order to position the company aggressively for long-term growth and to secure tax benefits prior to the tax rate changes in 1987.

We believe the strategic decisions made in 1986 will produce positive results, beginning in 1987. Certain of the actions taken, however, combined to exert negative influence on the year's earnings, masking performance improvement.

Net earnings for the fiscal year were $301.9 million, or $3.12 per share, excluding an extraordinary item. Including the extraordinary item, net income was $287.6 million, or $2.97 per share. For the fourth quarter, earnings were $171.2 million, or $1.82 per share. All per share amounts are adjusted for the 2-for-1 common stock split on April 13, 1987.

We believe, however, that any thorough analysis of 1986 performance requires an evaluation of each strategic action in the context of its potential longer term benefit.

Earnings Performance

Improvement in 1986 earnings can be attributed to the effect of ongoing corporate strategies to drive sales and increase market share. In addition, gross margin rates in our department stores segment grew solidly in 1986.

These efforts helped offset the effects of a continuingly difficult competitive retail environment and the economic slump in energy-producing states where some of our stores operate.

Many of our department store divisions — including Bloomingdale's, Bullock's/Bullocks Wilshire, Burdines, Filene's, Goldsmith's and Lazarus — registered operating profit improvements in 1986.

Ralphs, our southern California supermarket division, continued its strong sales performance in 1986, stimulated by the opening of 14 Ralphs Giant locations.

Gold Circle, Federated's mass merchandising division, successfully consolidated its Gold Circle and Richway operations in Fiscal 1986 and met our expectations for performance improvements as a result of the merger.

Federated also continued in 1986 to invest aggressively in MainStreet and Filene's Basement. Both divisions entered new markets during the year as part of ambitious long-term growth programs.

New Corporate Officers

Federated's Board of Directors has elected Norman S. Matthews as president and chief operating officer of the company, effective March 1987.

The new dual chief executive officer/chief operating officer management structure is intended to secure maximum productivity from the company's restructured asset base while providing continued emphasis on growth initiatives and new business opportunities. Under this new structure, Mr. Matthews will be responsible for overseeing the operations of Federated's divisions. Formerly a vice chairman of the company since 1984, Mr. Matthews will continue to report to Howard Goldfeder, chairman and chief executive officer.

Heading Federated's new dual management structure are Howard Goldfeder, chairman and chief executive officer, left, and Norman S. Matthews who became president and chief operating officer in March 1987.

In announcing the election of Mr. Matthews, Mr. Goldfeder noted that the action "provides us with the most appropriate means of meeting Federated's dual management challenge" of maximizing productivity from existing businesses and continuing to develop the corporation's fullest long-term growth potential.

In a related move, Allen I. Questrom, chairman and chief executive officer of the company's Bullock's/Bullocks Wilshire division, was elected an executive vice president of Federated. He will assume this position in addition to continuing his responsibilities at Bullock's/Bullocks Wilshire.

Core Business Focus

Federated continues to focus on strengthening its leadership role in department stores, the company's core business segment.

Our progress in this segment in 1986 reflects the results of strategies put in place over the past several years. At the same time, 1986 was a time to initiate additional actions designed to strengthen our department store operations for the future.

During the year, we maintained our energetic program of remodeling and expanding existing department stores in a way that already enhances their market positioning in the nation's choicest downtown and suburban locations. These improvements support merchandising strategies, as well as stimulate sales and market share growth. Our pre-opening expenses for major store remodels, expansions and openings increased by $4.4 million after taxes in 1986 compared to prior year expenses.

In addition, we have committed nearly $300 million in capital to major, strategic department store remodels and expansions in the past three years. This involved about 22 percent — or more than seven million square feet — of our department store selling space.

The improvement of existing stores is complemented by a strategy of selectively opening new stores to fill in existing

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markets and expand to new regional markets. In 1986, the department stores segment opened 10 new stores, accounting for nearly 1.6 million gross square feet.

We also devoted significant energies in the past year to two new strategic focuses as part of the continuing implementation of our headquarters department store strategy.

First, we launched a major review of the home store business within our department stores. In doing so, we are seeking a means to improve results and return on investment in this part of our business.

Second, we initiated a program in 1986 to improve the selling cultures in our stores and to concentrate on selling as a key to market differentiation.

In our continuing drive to leverage expenses, a number of important interdivisional task forces are working to find new and better ways to use our assets more effectively and efficiently. We believe these efforts will yield positive results for all segments of our company in the longer term.

Divisional consolidations are another way we are striving to leverage our size and strength. The January 1987 merger of our two Texas-based department store divisions — Foley's and Sanger Harris — completes a divisional merger process begun five years ago.

The mergers initiated since 1982 have eliminated costly duplications in administrative and central office expenses while stimulating our ability to drive sales by concentrating resources on enhanced professionalism and better service for the customer.

Tax Reform Act of 1986

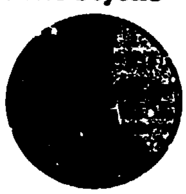
Federated took an early leadership role among American businesses in supporting Congressional passage of the Tax Reform Act of 1986. The company's action was based on a strong belief that our nation is best served by a tax system that is fair and equitable to all sectors.

We believe the tax reform package signed into law will be of significant long-term benefit to the country, as well as to our shareholders, customers and associates.

Statutory Federal Income Tax Rate

1986

1988 and beyond



Federated's statutory federal income tax rate will decline from 46 percent in 1986 to 34 percent when tax reform is scheduled to be in full effect in 1988. In 1987, our earnings will be subject to a blended tax rate of about 39 percent.

During the drive to support tax reform, Federated recognized that not all provisions of the proposed legislation would have a favorable impact.

For instance, our 1986 earnings were affected negatively by the retroactive repeal of the investment tax credit for property placed in service after 1985, with certain exceptions. Investment tax credits were $4.9 million for Fiscal 1986, compared with $16.4 million in Fiscal 1985. Moreover, changes in provisions for tax accounting for inventories, as well as differences in the way Federated is taxed on income from credit sales and bad debts, will result in an initial reduction in the overall tax benefits to the company.

While the precise impact of the positive or negative changes in tax provisions and procedures is difficult to assess at this point, we believe the net effect of tax reform on Federated will be increased earnings beginning in 1987 and increased cash flow beginning in the early 1990s.

Strategic Steps for Long-term Growth

Because Federated believes the best return to its shareholders will come through strategic investment in long-term growth, we took a number of actions in 1986 that impacted the year's earnings. Each is highlighted here and reviewed in detail in separate sections of this presentation...

- **Consolidation/Restructuring** — The merger of our Foley's and Sanger Harris divisions, designed to promote long-term operating efficiencies, resulted in a $15.7 million after-tax charge against 1986 earnings. (Page 6)
- **Ralphs Investment** — Total capital expenditures of $158.6 million in 1986 were used primarily to acquire and open 14 Ralphs Giant stores and four superstores, as well as to implement a modernization and expansion of the division's distribution center. This strengthened Ralphs supermarkets as a major growth opportunity for Federated. (Page 15)
- **Store Openings** — Filene's Basement and MainStreet continued aggressive expansion programs and, along with The Children's Place, opened a combined total of 22 stores in 1986 at an after-tax, pre-opening expense of $3.1 million, an investment that exceeded that made in the prior year by 36.7 percent. (Pages 7 and 8)
- **Department Store Strategy** — Implementation of our strategies in key areas of department store merchandising and operations included a $4.4 million after-tax increase in pre-opening expenses for store remodels, expansions and openings in 1986. (Pages 4 and 7)
- **A&S Repositioning** — Solidifying its New York/New Jersey market position involves withdrawal from the Philadelphia market by January 1988, as well as opening a new store in Valley Stream, Long Island, in 1986. A provision for loss on disposition of the Philadelphia stores, and pre-opening expenses for the Valley Stream location, totaled $9.0 million after taxes. (Page 6)
- **Disposition of Shopping Centers** — An after-tax gain of $19.6 million was realized from the sale of shopping centers, concluding implementation of our strategic program of divesting major ownership interests in shopping center developments. (Page 7)
- **Financial Strategies** — A debt repurchase, resulting in an extraordinary after-tax expense of $14.3 million in 1986, offered significant long-term interest savings. In addition, Federated shareholders benefited in 1986 and early 1987 from a 2-for-1 stock split, a 10.4 percent dividend increase and a stock repurchase. (Page 6)
- **Tax Reform** — Federated's strong and active leadership support for legislation that will reduce our statutory federal tax rate from 46% to 34% in 1988 brought with it repeal of the Investment Tax Credit. (Page 5)

Foley's/Sanger Harris Merger

In January 1987, Federated merged Foley's and Sanger Harris, its two Texas-based department store divisions. With this move, the company completed a program of divisional consolidations that began five years ago as a means of enhancing Federated's efficiency and positioning it for future growth.

The new Foley's — a leading retailer in the southwestern United States, with sales exceeding $1.1 billion — now operates 37 stores in Texas, Oklahoma, Arizona and New Mexico. It is Federated's largest department store division.

The merger and related costs resulted in a fourth quarter 1986 unusual after-tax charge of $15.7 million. The amount includes one-time expenses related to the consolidation of Foley's systems into the Atlanta-based Southeast Regional Data Center. This center was established in 1985 to serve Federated's Burdines, Rich's and Sanger Harris divisions. (A more detailed look at the importance of the center is included on page 16.)

By joining forces in a consolidated, centralized operation, the new Foley's division will be able to recognize enhanced economies and operating efficiencies that we believe will lead to improved customer service, merchandise value and overall performance. In addition, the merger will result in a reduced cost structure for the new divisional operation, positioning it to play a leadership role in the economic growth of its market region.

The Foley's/Sanger Harris merger is expected to have a modest positive effect on earnings in Fiscal 1987, and a significant positive earnings impact in Fiscal 1988 and beyond.

Federated's successful division consolidation process began in 1982 with the merger of the Cincinnati-based Shillito's and Dayton-based Rike's divisions. These divisions later were merged with the company's other Ohio-based department store division — Lazarus — in January 1986.

Also included in Federated's now-completed divisional consolidation process were Levy's, based in Tucson, which merged into Sanger Harris in 1984, and the Atlanta-based Richway division, which joined forces with Gold Circle, headquartered in Columbus, Ohio, in the January 1986 restructuring.

Results from the Lazarus/Shillito Rikes and Gold Circle/Richway mergers met expectations in Fiscal 1986. We expect the strength of our consolidated divisions to make a growing contribution to the continued success of Federated in the future.

Abraham and Straus Repositioning

Abraham and Straus, Federated's Brooklyn-based department store division, embarked on a strategic program in 1986 to concentrate its resources on solidifying its market share in the New York/New Jersey metropolitan area — traditionally its strongest market.

In October, A&S opened a new store in the Green Acres Mall in Valley Stream, Long Island, a key location that will help it to better serve the New York trading area.

The division also announced its withdrawal from the Philadelphia market. A&S's King of Prussia store closed in January 1987, and its Willow Grove location will close in January 1988.

A provision for loss on the store closings, as well as pre-opening expenses for the Valley Stream location, resulted in a $9.0 million after-tax expense in 1986.

During the coming year, A&S will concentrate on improving its 14 existing New York/New Jersey locations, as well as exploring additional expansion opportunities.

Financial Restructuring

● Federated's Board of Directors initiated several major actions in 1986 and early 1987 to benefit shareholders and reflect the company's long-term growth expectations.

In a March 1987 move to help broaden the market for Federated stock and expand distribution of its common shares, the Board declared a 2-for-1 split of its common stock in the form of a 100 percent stock dividend. Shares will be distributed May 11, 1987 to shareholders of record April 13, 1987.

At the same time, the Board increased the quarterly dividend on Federated common stock by 10.4 percent to 74 cents per share ($2.96 annualized) on a pre-split basis, and to 37 cents per share ($1.48 annualized) on a post-split basis. This increase applies on a pre-split basis to shareholders of record April 10, 1987.

● The Board, in declaring the split, also adjusted to 20 million shares on a post-split basis its previously approved authorization for the company to repurchase from time to time 10 million shares of its pre-split common stock at price levels deemed desirable. Under that authorization, Federated repurchased about 2.2 million shares on a pre-split basis in a fourth quarter 1986 transaction.

As a means of maintaining the same flexibility for future growth as existed before the stock split, Federated's Board authorized and recommended that shareholders approve an increase in the number of authorized common shares from 200 million to 400 million at the May 28, 1987 annual meeting. If approved, the additional shares would be available for issuance for future stock dividends, acquisitions, sale for cash, employee benefits plans and other general corporate purposes.

● A key benefit of Federated's sound balance sheet and financial strength is the flexibility it provides, allowing the company to take maximum advantage of fluctuations in interest rates and market conditions.

Federated was able to capitalize on one such opportunity in the third quarter of 1986 by repurchasing $297.0 million of its outstanding long-term Sinking Fund Debentures and Euronotes with coupon rates above 10 percent.

As a result of the repurchase, the company recorded an extraordinary after-tax expense in the third quarter of $14.3 million.

The debt repurchase contributed to a lo[illegible] [illegible]erest expense in Fiscal 1986. Pre-tax interest expense [illegible]9.8 million in 1986, compared with $86.4 million in [illegible]

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Shopping Center Divestitures

Four years ago, Federated made the strategic decision to divest itself of shopping center development operations, and to focus the company's resources and energies on the further development of its retailing enterprises.

Our real estate disposition program, designed to increase shareholder value, has capitalized on favorable market conditions, which have helped bring desirable prices for our properties.

The company completed its planned divestiture of major shopping center properties in 1986 with the sale of ownership interests in two major regional shopping centers — Hulen Mall in Fort Worth, Texas, and Hickory Ridge Mall in Memphis, Tennessee. These sales represented an after-tax gain of $18.6 million.

With those sales, Federated has consummated the strategic disposition of all wholly owned shopping centers, as well as all other major interests in shopping center developments.

In addition to the shopping center transactions, Federated sold in 1986 significant surplus property in California, Florida, New York, Georgia, Texas, Illinois and Arizona. Many of these transactions were timed to take advantage of capital gains tax provisions repealed under the Tax Reform Act.

We believe these actions will result in the highest return for shareholders and will help our retail businesses expand and develop. Our strategic investments in store openings, expansions and remodels are detailed below.

Remodels/Openings/Expansions

Across our company, Federated is making the significant capital investment necessary to remodel, expand and improve existing stores, as well as to acquire and build new locations.

This commitment stems from the philosophy that, in order to provide the appropriate fashion-orientation and environment for our merchandise, Federated stores must clearly reflect in their total store presentation the strategies developed to drive sales and improve performance.

Our stores improvement program also embraces the belief that Federated already operates the best retail locations in key markets, and that we can best employ these assets by making the stores more exciting and productive.

The company's capital expenditures in 1986 totaled $514.8 million, an increase of 41.4 percent from the previous year. In the next four years, we plan to spend approximately $2.0 billion on capital projects.

The program to improve existing stores is especially prevalent in our department store segment, where we have initiated more than 40 major, strategic store remodels and expansions in the past three years. These projects represent more than 22 percent of all current department store selling space and will cost nearly $300 million to complete.

Through early forecasting of demographic and geographic expansion trends over the past three decades, Federated has been able to secure the most favorable suburban department store locations in key markets. Today, new stores are being developed prudently to fill in existing markets and to extend our divisions' influence to broader regional horizons.

In Federated's mass merchandising segment, Gold Circle has begun a program to remodel and respace all 76 of its locations to support a strategic repositioning.

Our Ralphs supermarket division has pursued aggressively a program of replacing older, smaller locations with new, larger ones dramatically designed to serve the diverse needs of consumers in southern California. In 1986, a total of 14 Ralphs Giant and four Ralphs superstores were opened, while 18 smaller and older locations were closed. (See page 15.)

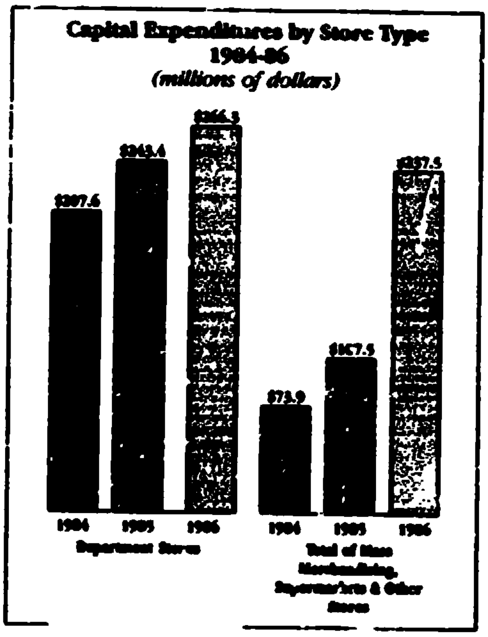
MainStreet and Filene's Basement continue to expand rapidly with new stores in new high-potential markets, while The Children's Place has concentrated efforts on solidifying its presence in existing markets. Together, these divisions opened 22 new locations in eight new markets in 1986. (See page 8.)

1986 Store Openings

Division	Store Type	Market
Abraham and Straus	Department	Valley Stream, NY
Bloomingdale's*	Department	Boca Raton, FL
Bloomingdale's	Furniture Clearance	Garden City, NY
Bullock's	Department	Los Angeles, CA
The Children's Place**	Children's Apparel	Various Markets (10)
Filene's Basement	Fashion Discount	Philadelphia, PA (2)
Filene's Basement	Fashion Discount	Northern New Jersey (2)
Filene's Basement	Fashion Discount	Holyoke, MA
Filene's Basement	Fashion Discount	Massapequa, NY
Foley's	Department	Oklahoma City, OK (2)
Lazarus	Department	Heath, OH
MainStreet	Moderate-Income Department	Chicago, IL (3)
MainStreet	Moderate-Income Department	Detroit, MI (3)
Ralphs	Ralphs Giant	Southern California (14)
Ralphs	Superstores	Southern California (4)
Rich's	Department	Atlanta, GA
Rich's	Furniture	Atlanta, GA
Rich's	Department	Birmingham, AL

*Bloomingdale's also opened two Bloomies Express shops in Kennedy International Airport in New York.

**Includes three locations of The Accessory Place, a women's accessories specialty store.



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Upscale Fashion Leadership

Federated's upscale department stores — Bloomingdale's, Bullock's/Bullocks Wilshire and I. Magnin — continued to make strides in 1986 toward serving their fashion-conscious customers with distinctive merchandise and stores.

Bloomingdale's performance was especially gratifying as the division surpassed $1 billion in sales for the first time. Bloomingdale's also strengthened its presence in the burgeoning south Florida market with a new store in Boca Raton, and began construction on its grand new location on Michigan Avenue in Chicago, scheduled to open in the fall of 1988.

In addition, the division turned its unique merchandising flair to development of a new retailing concept in 1986. Two pilot Bloomies Express stores were launched in the international terminal at Kennedy International Airport in New York, marketing Bloomingdale's merchandise to the savvy European traveler who wants to carry the Bloomingdale's name back home.

In California, Bullock's/Bullocks Wilshire concentrated its efforts on enhancing its upscale positioning in the Los Angeles market. Its merchandise mix was reformulated to expand fashion apparel selections. Key stores also are being remodeled to respace departments and improve visual presentation. Bullock's re-entered the downtown Los Angeles market with a new store in the Citicorp Plaza.

In addition, catalog sales by Bloomingdale's By-Mail Ltd., I. Magnin and Bullocks Wilshire continued to expand in the past year. Upscale mail-order sales combined to total about $75 million in 1986, an 11 percent increase from 1985.

Growth Vehicles

Federated's MainStreet, Filene's Basement and The Children's Place divisions complement market segments served by the company's department store operations. They also serve an important role in broadening Federated's total market penetration potential, while expanding our geographic diversity.

Together, these divisions opened 22 new locations in 1986, including 12 in new markets. The investment in pre-opening expenses for new stores for this segment was $3.1 million after taxes, compared to $2.3 million in 1985.

Sales in this segment have grown nearly three-fold in the past five years, and totaled $523.2 million in 1986.

MainStreet, launched by Federated in 1984, has emerged rapidly as a retailing force in metropolitan Chicago, where 12 stores have opened within the last three years. This division also entered the Detroit market with three stores in 1986 and another three to come in 1987. MainStreet's entry into Minneapolis/St. Paul, the division's third market, will include five stores in 1988.

MainStreet was carefully planned and meticulously researched before its launch three years ago — a factor we think accounts for much of its early growth. With its focus on affordably priced fashion apparel for the entire family, MainStreet will operate 29 locations in three Midwestern states by the end of 1988.

Consumer acceptance and perception of MainStreet has been encouraging, confirming our belief that MainStreet will develop into an exciting growth vehicle for Federated in the 1990s and beyond.

At the same time, MainStreet has demonstrated Federated's ability to develop and test unique new concepts in retailing within our existing structure — to back exciting, new entrepreneurial endeavors with the strength, resources and expertise that are so vital in giving success room to grow.

This tradition of fostering entrepreneurial spirit began with Filene's Basement nearly 80 years ago. Today, Filene's Basement continues its legacy of being one of the nation's favorite fashion apparel discount retailers. Its unique offering includes moderate-to-better merchandise that appeals to the fashion and value senses of upscale consumers in key urban areas of the populous Northeast.

Based on the success of its locations in Massachusetts, New York, New Hampshire, Rhode Island and Connecticut, Filene's Basement broadened its horizons in 1986 with entries into the Philadelphia and northern New Jersey markets. Further expansion is planned in 1987.

The Children's Place, Federated's nationwide chain of children's apparel stores, focused on strengthening its current locations in 1986. It also expanded further by opening seven new children's wear stores, including four in new markets.

The division's children's wear stores are redirecting their merchandise offerings to emphasize private labels and proprietary product development. Existing stores are being remodeled to conform to a new prototype that enhances visual presentation and underscores the value orientation of The Children's Place for young families.

The division also continues to demonstrate its strong entrepreneurial spirit with a new accessories specialty store marketed to young women. Called "The Accessory Place," the concept is being tested in the New York, Philadelphia and St. Louis markets with administrative, merchandising, marketing and distribution support from The Children's Place organization.

Gold Circle Consolidation

Gold Circle, Federated's upscale mass merchandising division, repositioned itself in 1986 for improved performance following the merger of Gold Circle and Richway operations into a single organization with 76 stores in the eastern United States.

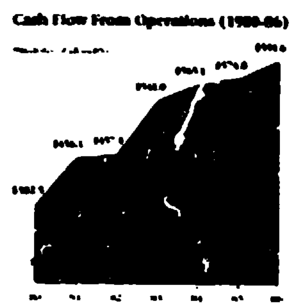
The consolidation has reduced Gold Circle's cost structure in a move to make it more efficient and profitable. The merger also has afforded the division additional opportunities to improve customer service and refine its merchandise assortments.

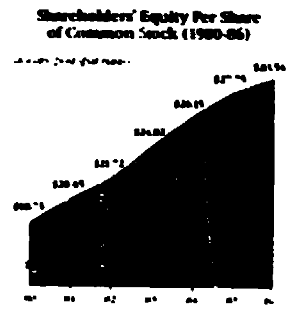
A renewed focus on everyday low pricing ensures competitiveness in commodity merchandise. At the same time, Gold Circle has instituted a major thrust in fashion parts of the business — both in apparel and home merchandise — that offers today's looks at prices Gold Circle's target customers can recognize as value.

In addition to Mr. Goldfeder and Mr. Matthews, members of Federated's Office of Corporate Management are, from left, John W. Burden III, vice chairman; Will M. Storey, vice chairman; Abner M. Porat, senior vice president; Donald J. Stone, vice chairman; Thomas G. Cody, senior vice president, and Allen I. Questrom, executive vice president.

Financial Strength

We recognize that Federated's financial strength and flexibility are factors key to the company's ability to grow and develop for the future. For that reason, we have preserved and strengthened the company's financial position, which continues to be one of the best in the retail industry.





Cash flow from operations rose for the sixteenth consecutive year in Fiscal 1986 to $591.6 million. This vigorous cash flow has allowed us to finance substantially all of our aggressive capital expansion program — as well as to pay increased dividends to shareholders — with internally generated funds.

Federated maintains a strong equity base, and in 1986 again increased shareholders' equity per share to $28.54.

In 1986, the company repurchased nearly 2.2 million pre-split shares of its common stock while maintaining a healthy financial structure.

We believe Federated's strong balance sheet also provides ample capacity for future growth and expansion, while allowing the company flexibility to take advantage of market conditions. The company pursued one such opportunity in the third quarter, when we completed a program of repurchasing $297.0 million in long-term Sinking Fund Debentures and Euronotes with coupon rates above 10 percent.

This repurchase program, coupled with lower interest rates on both our long and short-term debt, enabled the company to reduce its interest expense to $79.8 million in Fiscal 1986 from $86.4 million in Fiscal 1985.

Looking Ahead...

We are enthusiastic about the future of Federated, and we are anxious to capitalize on the numerous opportunities we have worked so aggressively to cultivate.

Many of our strategic programs will begin to come to fruition in Fiscal 1987, a year in which our three newly consolidated divisions will be taking advantage of their enhanced strength in the marketplace while operating on reduced expense structures. At the same time, we expect many of our emerging growth vehicles — MainStreet, Ralphs and Filene's Basement in particular — to benefit from the contribution of new store locations that have come on stream over the past two years.

Measures taken to improve the efficiency and effectiveness of our divisions, as well as the programs of executive development and "Priority on People" that are aimed at further enhancing the talents and potential of our associates at all levels, will be especially important in the coming year. During this period in which we expect the retail environment to remain competitive, with the pace of economic growth in America slowing from the brisk pace of recent years, the contributions of our associates will determine to a large extent the degree of our success.

We will not waiver from our strategic course of improving and developing our department store businesses, which will continue to serve as the foundation of our company. But at the same time, we are committed to building on that foundation by layering other types of retail vehicles into our portfolio in a manner that allows us to continue to pursue additional consumer market segments.

Over the past several years, we have worked diligently on this program to position Federated for long-term vitality. This mission often required us to make hard decisions that looked beyond short-term performance to the benefit of future health and prosperity. As we strive to reach this objective, our company has fostered a sense of synergy and teamwork that will continue to serve us well. This spirit — and the way it is embodied in the way we do business — is described in the following pages.

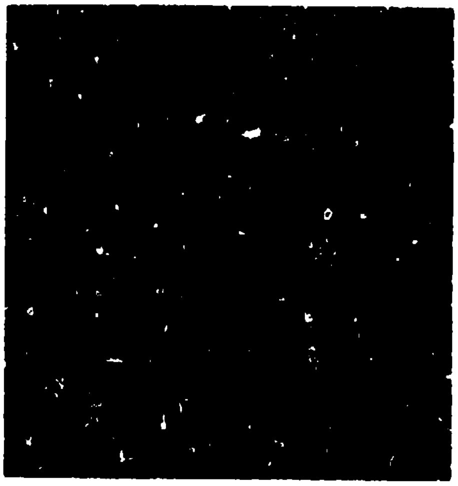
It is a harbinger of achievements that now are within reach as Federated looks confidently to the future.

Sincerely,

Howard Goldfeder
Chairman and Chief Executive Officer

Norman S. Matthews
President and Chief Operating Officer

Success Through Synergism: A Teamwork Approach



Federated recognizes the importance of strong individual players who work together toward a common objective. And we know that through this firm commitment to teamwork, we are able to maximize our opportunities and leverage our potential as a large, strong and synergistic company.

Teamwork — the careful synthesizing of people, ideas and operations to implement Federated's strategies — is the essence of our ability to meet customer needs. Because that is where it all begins and where we will determine how it ends. With our associates working to serve customers. One-on-one in every store, everyday. Creating the kind of interaction that stimulates satisfaction and success.

And teamwork provides us with more. It gives us the important ability to respond to changing business conditions in an increasingly competitive retail environment.

This fusion of resources adds an important value dimension to Federated's historical strength as an entrepreneurial company that recognizes creativity and rewards initiative.

Federated's private label and coordinated division purchasing programs, which accounted for as much as $750 million in retail sales in 1986, are prime examples of corporate synergy at work. Administered by Federated Merchandising Services in New York, these programs incorporate the best thinking of experienced divisional merchants from across the company.

Most importantly, Federated's private labels and fashion forecasting enhance the ability to provide our department store divisions with an important competitive merchandising edge — and help each to enhance its unique flair. Particularly impressive is the growth of upscale private labels — including Allen Solly for men and women and Lauren Alexandra for women — which cater to a fashion-conscious market segment. Sales of these upscale private labels increased by 65 percent in 1986 from the previous year.

Working together, our divisions also find new ways to make existing operations more efficient and effective. Interdivisional task forces of Federated executives are studying and formulating creative solutions to complex problems that range from improving the return on investment of our home furnishings business to examining opportunities for regionalized systems, transportation, distribution, store planning and credit operations.

Federated's five-year process of division consolidations, completed in January 1987 with the merger of our Texas-based Foley's and Sanger Harris department store divisions, has been an important vehicle for Federated. These consolidations — which also included Sanger Harris/Levy's and Shillito's/Rike's in 1982, and Lazarus/Shillito Rikes and Gold Circle/Richway in January 1986 — provided us with the opportunity to drive sales while reducing expense structures.

Moreover, these mergers have allowed us to devote additional resources and energies to improving customer service, merchandise selections and store remodels and expansions — factors that matter most to our customers and that will improve our stores' market share over the long term.

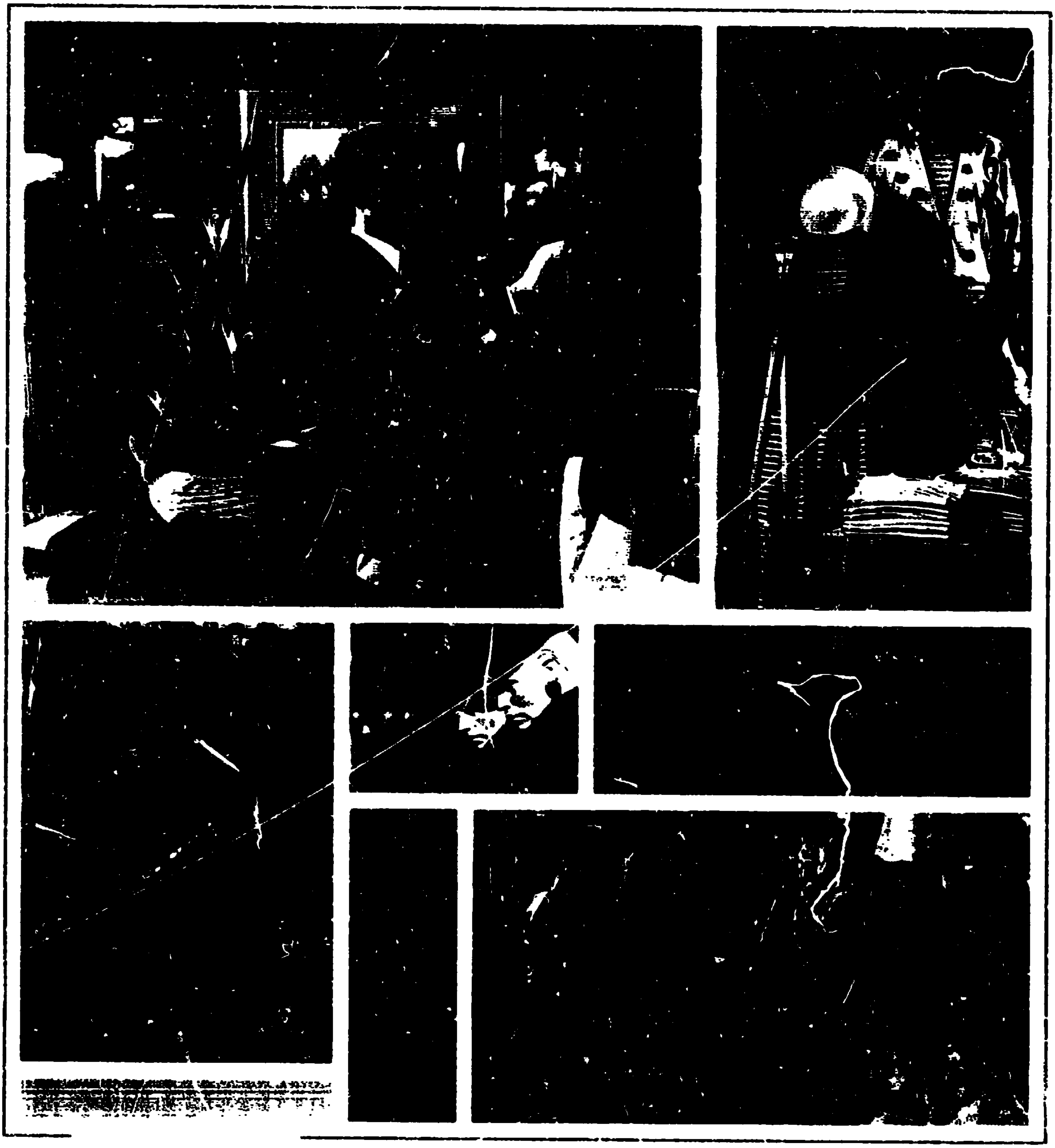
Results of the mergers have been impressive to date. The new Lazarus division in 1986 increased its operating profits and return on investment; Gold Circle met our expectations for post-merger performance.

On a regional scale, Federated divisions also are working together on selected operational support functions, particularly those that rely on advanced computer technology. The Southeast Regional Data Center in Atlanta, for example, was formed in 1986 to handle the data processing needs of three southern department store divisions. A closer look at that center and its growing role within Federated appears on page 16.

Additional synergy is generated through integrating the systems of our growing MainStreet division with those of Gold Circle in Columbus, Ohio, and through a cooperative effort that allows Lazarus in Cincinnati to process data for our Memphis-based Goldsmith's division, as well as for Federated Merchandising Services and the Corporate Office.

We believe that through these initiatives of teamwork, Federated's true value greatly exceeds the sum of its individual parts. And, as we expand and develop further opportunities to work together, this special synergism will promote even greater returns in the future.

Creativity and flair are hallmarks of a dynamic Federated



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Identifying and meeting the needs of our customers — from distinctive merchandise offerings to a new focus on improved customer service — is the highest priority of our department stores.

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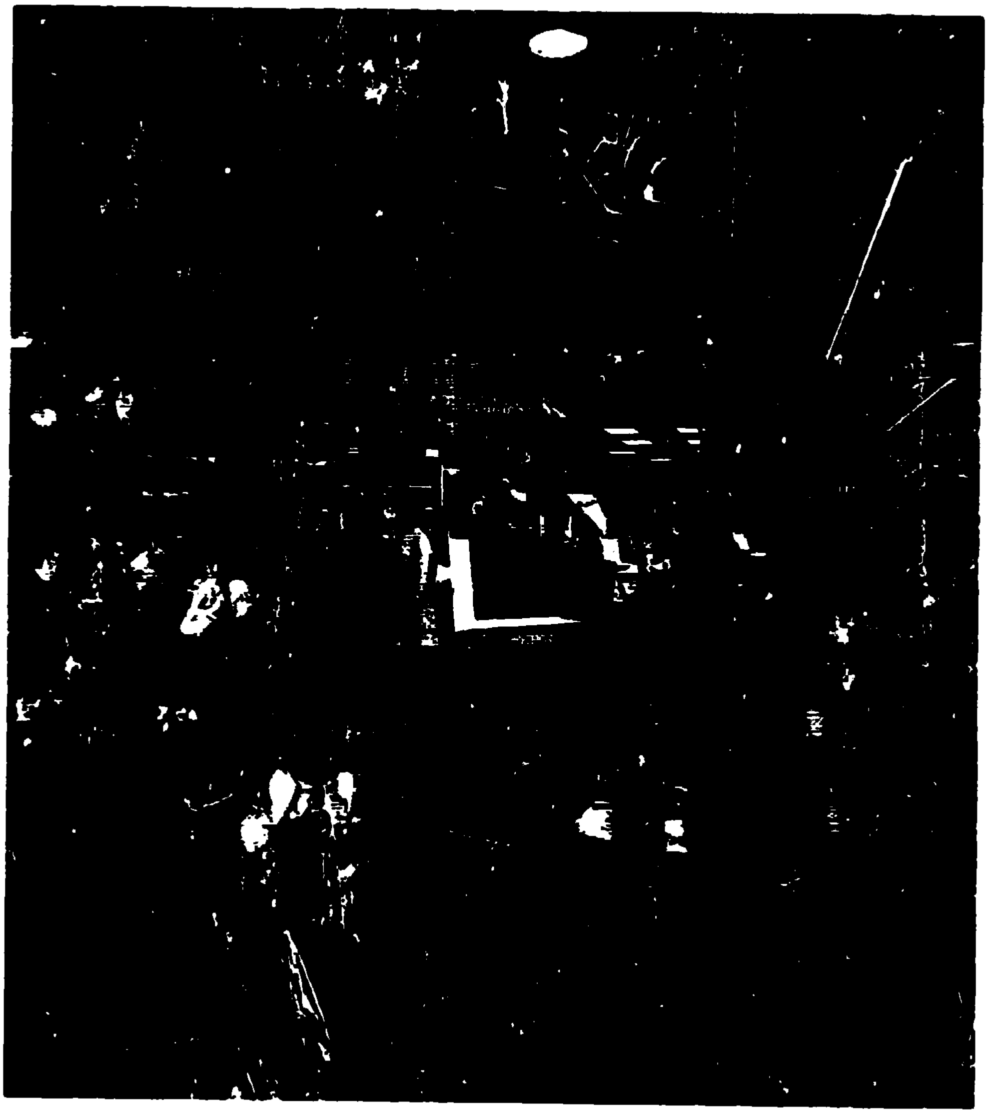
A variety of distinctive retail vehicles targeted to key customer segments provides Federated the opportunity to serve diverse markets.



Ralphs Giant Launches New Supermarket Format

Ralphs, Federated's southern California supermarket division, made an exciting breakthrough in 1986 with rapid-fire opening of 14 Ralphs Giant stores in the Los Angeles area.

Total capital expenditures in Ralphs were $158.6 million in 1986, and included acquiring and opening the Ralphs Giant stores and four new superstores, implementing a modernization and expansion of Ralphs' distribution center as well as remodeling nine supermarkets.

The innovative Ralphs Giant program was an impressive team effort that drew on Ralphs' nearly 115 years of experience in the grocery business, as well as on its keen understanding of consumer expectations and preferences in America's second largest consumer market.

Ralphs Giant stores transcend the traditional supermarket. Each is about 70,000 square feet and carries more than 30,000 items — nearly triple the size and double the number of merchandise items of a typical supermarket.

The unique Ralphs Giant concept meets customer demands by offering everyday minimum prices and a clean, well-marked store presentation of warehouse-priced packaged goods. Wide assortments of high-quality produce, bakery, meat and seafood are featured in exciting and dramatic perishable departments.

Ralphs is Federated's vehicle to reach an important and growing market segment. In addition, Ralphs and our general merchandise divisions continue to share the benefits of important lessons learned from each other in areas ranging from expense management and distribution techniques to application of sophisticated retailing technology.

It is this type of partnership that distinguishes Federated, and that demonstrates why our divisions — and the company as a whole — believe that success in the future will come through capitalizing on the unique opportunities that exist for enhancing operational synergy across the corporation.

Regional Data Center Demonstrates Success Through Synergy

A clear demonstration of the synergy among Federated divisions is at work in the company's Southeast Regional Data Center in Atlanta.

The center was the brainchild of executives at our Sanger Harris, Rich's and Burdines department store divisions. Through it, they saw an opportunity to enhance the effectiveness and efficiency of data processing for all three divisions by combining individual EDP functions into a coordinated computer facility.

Federated announced formation of this state-of-the-art center in January 1986 as part of a larger corporate restructuring. Throughout the past year, participating divisions focused on pooling their talents and resources to bring their vision to reality. The center was fully operational by mid-year.

Our newly merged Foley's/Sanger Harris division consolidated its systems into the regional center in early 1987, at which point the center will be processing collectively all data for a group of divisions representing about one-quarter of Federated's annual sales.

We believe the center represents a creative manifestation of what Federated associates can and will continue to accomplish when encouraged to identify opportunities to leverage our business operations in new and challenging ways.

Where We Operate

Abraham and Straus
15 department stores in the New York City and Philadelphia, Pennsylvania, metropolitan areas, on Long Island and in northern New Jersey

Bloomingdale's
16 department stores in the New York City; Philadelphia, Pennsylvania; Washington D.C.; Boston, Massachusetts; Stamford, Connecticut; Dallas, Texas; Boca Raton and Miami, Florida; metropolitan areas, on Long Island and in northern New Jersey

Bullock's/Bullocks Wilshire
22 department stores and six specialized fashion stores in the Los Angeles, San Diego and Palm Springs, California; Las Vegas, Nevada; and Scottsdale, Arizona, metropolitan areas

Burdines
29 department stores throughout Florida, including the Miami, Fort Lauderdale, West Palm Beach, Gainesville, Daytona Beach, Orlando, Melbourne, Tampa-St. Petersburg, Fort Meyers and Sarasota metropolitan areas

The Children's Place
163 children's apparel and three women's accessories stores in California, Colorado, Connecticut, Delaware, Florida, Georgia, Illinois, Indiana, Kansas, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Michigan, Missouri, New Jersey, New York, North Carolina, Ohio, Oklahoma, Pennsylvania, South Carolina, Texas, Virginia and Wisconsin

Filene's
16 department stores throughout the northeastern United States, including the Boston, Massachusetts; Warwick, Rhode Island; Manchester, New Hampshire; Portland, Maine; Waterford, Connecticut; and Albany, New York, metropolitan areas

Filene's Basement
22 stores throughout the northeastern United States, including the Boston and Holyoke, Massachusetts; Warwick, Rhode Island; Manchester, New Hampshire; New York, New York; Hartford, Connecticut; and Philadelphia, Pennsylvania, metropolitan areas, on Long Island and in northern New Jersey

Foley's
37 department stores throughout the southwestern United States, including the Houston, Dallas/Fort Worth, Austin, San Antonio, Bryan/College Station and Tyler, Texas; Oklahoma City and Tulsa, Oklahoma; Tucson, Arizona; and Albuquerque, New Mexico, metropolitan areas

Gold Circle/Richway
76 mass merchandising stores in Ohio, New York, Kentucky, Georgia, Florida, Tennessee and North and South Carolina

Goldsmith's
Six department stores in Memphis and Jackson, Tennessee

Lazarus
32 department stores in the Columbus, Cincinnati, Dayton, Springfield, Mansfield, Lima and Newark, Ohio; Indianapolis and Evansville, Indiana; Louisville and Lexington, Kentucky; and Huntington, West Virginia, metropolitan areas

I. Magnin
26 stores in the San Francisco, Oakland, Los Angeles, Sacramento, Palo Alto and Palm Springs, California; Seattle, Washington; Portland, Oregon; Phoenix, Arizona; Chicago, Illinois; and Washington D.C. metropolitan areas

MainStreet
15 stores in the Chicago, Illinois, and Detroit, Michigan, metropolitan areas

Ralphs
15 Ralphs Giant stores and 112 other supermarkets in southern California, including Los Angeles, Orange, San Bernadino, Riverside, San Diego, Ventura and Kern Counties

Rich's
20 department stores in the Atlanta and Augusta, Georgia; Columbia and Greenville, South Carolina; and Birmingham, Alabama, metropolitan areas

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Division Performance

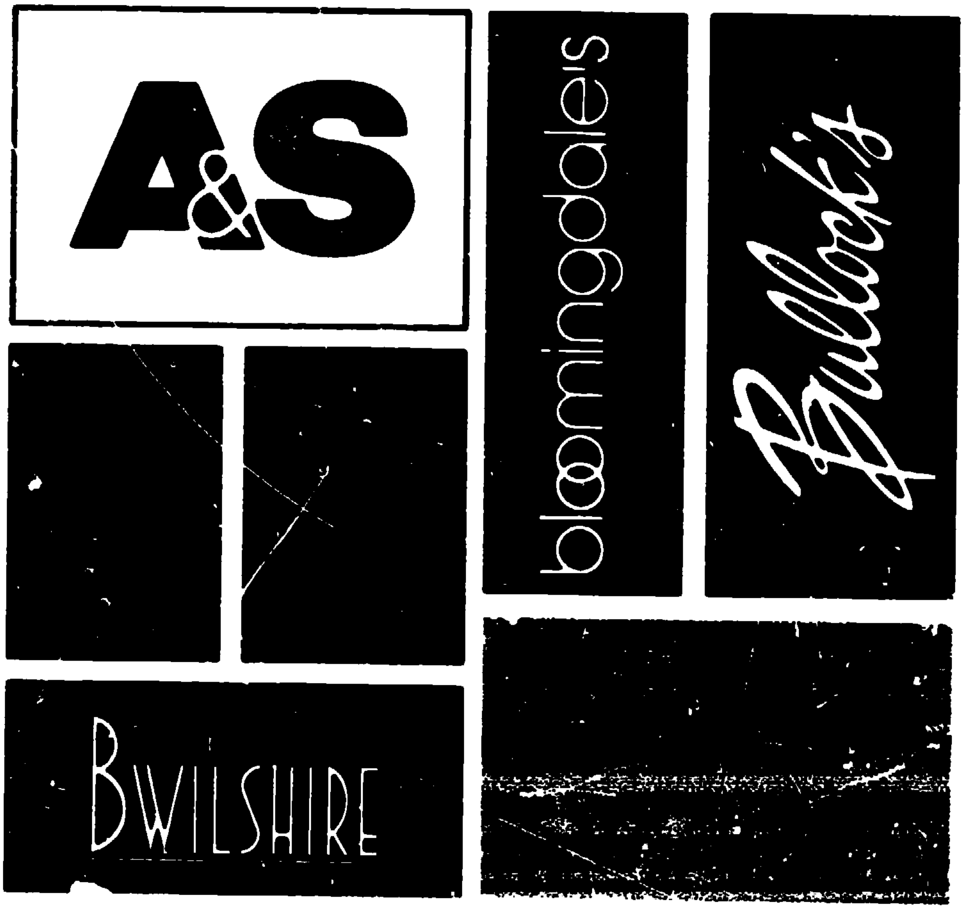
Abraham and Straus

Brooklyn, New York; established 1865
Chaim Y. Edelstein, chairman
Robert J. Anderson, president
1986 Sales $778.6 million; 1985 Sales $767.5 million

A&S's performance in 1986 was enhanced by the very strong opening of a store in Valley Stream on Long Island, where the division already enjoys a strong position. With the announced closing of A&S' two Pennsylvania stores, the division will concentrate on solidifying its market share in New York and New Jersey.

The division also is reacting to merchandise trends by expanding fashion apparel departments for broader exposure, while consolidating home store and hard goods space allocation in new and renovated stores.

A&S reinforced its strong community commitment by co-sponsoring the July 4 Liberty Weekend fireworks.



Bloomingdale's

Manhattan, New York; established 1872
Marvin S. Traub, chairman
Robert Tammero, president
1986 Sales $1,050.0 million; 1985 Sales $955.2 million

Improved results dominated in 1986 as Bloomingdale's exceeded $1 billion in sales for the first time, co-sponsored the July 4 Liberty Weekend fireworks, and saluted the 100th anniversary of the Manhattan flagship store in the fall.

Sales and profits both showed substantial growth during the year. Also successful were the opening of a new store in Boca Raton, Florida, and the inauguration of the first two Bloomies Express shops at Kennedy International Airport. Construction began on a location on North Michigan Avenue in Chicago, which is scheduled to open in fall, 1988.

The division's renovation program continued as the Manhattan store's fourth floor was completed, and work on the third floor began. In addition, remodelings were implemented in White Flint and White Plains.

Construction has begun on a new fulfillment center in Cheshire, Connecticut for the growing Bloomingdale's-By-Mail Ltd. catalog operation. When completed, it will permit ever greater growth and better service.

Bullock's

Los Angeles, California; established 1906
Allen I. Questrom, chairman
James E. Gray, president
1986 Sales $751.8 million; 1985 Sales $712.3 million

Bullocks Wilshire

Los Angeles, California; established 1929
Jerome M. Nemiro, president

Bullock's goal of reinforcing its position as southern California's premier upscale department store neared reality in 1986 as the division made dramatic positive strides in customer service, visual presentation and focused assortments. Sales and earnings were at record levels.

The previously announced respacing program to feature core departments was begun in four stores and scheduled for others in 1987.

In August, Bullock's opened its new downtown Los Angeles store with significantly improved levels of customer service.

Bullocks Wilshire, the six-store specialty group, added a seventh location in February 1987 as it opened a 57,000-square-foot store in Palm Desert.

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Burdines
Miami, Florida; established 1898
Howard Socol, chairman
James D. Carreker, president
1986 Sales $[illegible].7 million; 1985 Sales $757.5 million

Burdines showed growth in sales, earnings and market share in 1986, while continuing to position itself for the future as Florida's fashion headquarters.

Three stores were totally remodeled and others were partially renovated. This store improvement program, intended to position Burdines for accelerated market share growth, will include additional remodels and renovations in 1987.

Burdines' positioning has helped differentiate it from its many competitors, including those who have entered the Florida market from other parts of the country. As part of that positioning effort, Burdines continued to develop special merchandise, visual presentation and services that reflect the Florida lifestyle.

Burdines announced a store in the Palm Beach market. Scheduled to open in the fall of 1988, the new location will be Burdines' fourth in Palm Beach County.

The Children's Place
Pine Brook, New Jersey; established 1969
Peter M. Starrett, chairman
David S. Mooney, president
1986 Sales $161.8 million; 1985 Sales $158.7 million

The Children's Place developed and implemented plans in 1986 to meet the challenges of a difficult competitive environment. Its performance improved.

The division's merchandise offering has been refined to include greater assortments of private label merchandise marketed under the "Rattles," "Images" and "On Track" labels.

Expansion of a new store design prototype, accompanied by dynamic visual presentations to attract quality- and price-conscious parents and their children, will continue in 1987.

The division launched a new specialty store group — called The Accessory Place — in 1986 with test locations in the New York, Philadelphia and St. Louis markets. The stores offer exciting, fashion accessory merchandise targeted primarily to young women ages 16 through 34. Ten additional locations are planned for 1987.

Filene's
Boston, Massachusetts; established 1852
Michael J. Babcock, chairman
Jerry M. Socol, president
1986 Sales $390.8 million; 1985 Sales $353.5 million

Filene's generated record sales and profits in 1986. The increases came from across the division.

Particularly impressive has been growth in Filene's stores in remote markets.

Filene's has intensified and broadened its better apparel assortments and eliminated its home furnishings business. The division's merchandise repositioning strategy, begun in 1984, was strengthened with the launch of a new institutional marketing and media campaign, which enhanced Filene's established reputation as the leading department store in New England.

Filene's Basement
Boston, Massachusetts; established 1909
Samuel J. Gerson, chairman
M. Anathan III, president
1986 Sales $252.1 million; 1985 Sales $212.8 million

Sales per square foot continued to be impressive as Filene's Basement expanded in new and existing markets in 1986. The division's organization has assimilated the rapid growth in stores, while continuing to position itself for substantial future development.

Six new stores were opened in 1986, including initial entries into the northern New Jersey, Philadelphia and Holyoke, Massachusetts, markets. An additional location was opened on Long Island.

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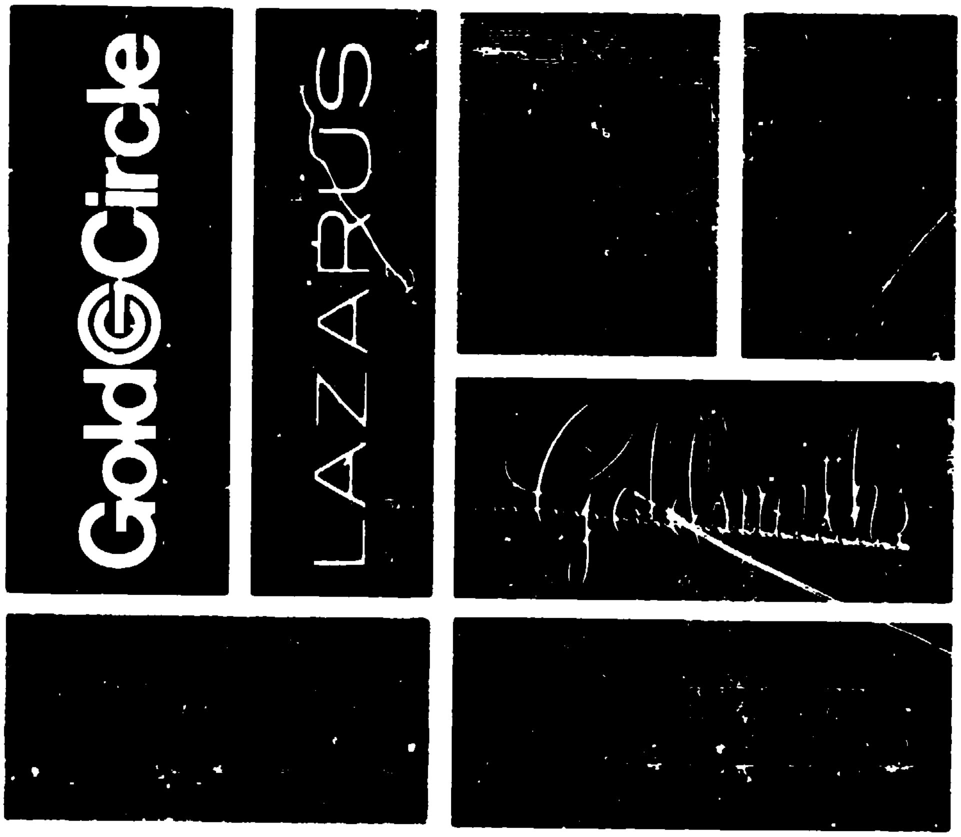


Foley's

Houston, Texas; established 1857
Lasker M. Meyer, chairman
John B. Utsey, vice chairman
Michael Steinberg, president
1986 Sales $1,107.0 million; 1985 Sales $1,131.0 million

The Foley's and Sanger Harris department store divisions were merged in January 1987 into a single organization operating 37 stores in four states under the Foley's name. The merger will provide operating efficiencies that will translate into wider merchandise selections, better service and enhanced stores as the new Foley's positions itself for future growth of the Southwest.

In 1986, sales and profits in oil-producing areas, particularly Houston, Oklahoma City and Tulsa, continued to be depressed.

Two stores were opened in 1986 in the Oklahoma City market, where a third location is planned for 1988. Stores in the Dallas, Tulsa and Albuquerque markets were remodeled. A major expansion and remodel of the North Star store in San Antonio was completed.

Foley's entered another new Texas market — Corpus Christi — with one store opened in March 1987.

Gold Circle

Columbus, Ohio; established 1967
Peter J. Hayes, chairman
Robert B. Glass, president
E. Jackson Smailes, vice chairman
1986 Sales $969.2 million; 1985 Sales $1,057.9 million

Gold Circle successfully integrated the former Richway division into a new, 76-store operation during 1986, and continued to implement strategies to reposition the company as an upscale mass merchant.

The division continues to place high priority on customer service, and is building on its tradition of technological advancement with new merchandise information and on-line replenishment systems.

A new store design has been adopted to support the division's offering of current fashion and trend items, along with consumables at everyday low prices. Customers have responded well to the format, which was incorporated in five stores during 1986, and the division is aggressively pursuing additional conversions to the new layout.

Year-to-year sales comparisons were unfavorably impacted by the closing of Gold Circle stores in the Pittsburgh mar in January 1986.

Goldsmith's

Memphis, Tennessee; established 18
Mathew Spiegel, chairman
Roger Knox, president
1986 Sales $174.0 million; 1985 Sales $169.1 million

Goldsmith's began its remodeling of t Hickory Ridge store in November 1986. This remodel is the third such renovatio in the last three years, consistent with th divisions strategy to reallocate space to growth merchandise categories and to renovate and respace existing stores.

Operating profits increased.

Lazarus

Cincinnati, Ohio; established 1830
John D. Miller, chairman
Herbert Ross, president
1986 Sales $904.7 million; 1985 Sales $856.2 million

The new Lazarus division, formed in January 1986 with the merger of Lazarus and Shillito Rikes, achieved record sales, profits and return on investment in 1986. Expenses were lowered, consistent with pre-merger plans.

Major store remodels were completed the Lexington, Columbus and Indianapol markets, with smaller renovations completed in five other stores. In additio a fourth small soft goods department sto was opened in Heath, Ohio, in October.

Plans for 1987 include three additional smaller department stores, two major remodels and many smaller renovation projects.

Lazarus' customer service selling effort continued to accelerate, gaining increasi recognition by customers in all markets. fulfilling the commitment to superior service, extra sales associates, sales managers and sales support staff were added in 1986.

I. Magnin
San Francisco, California; established 1876
Barbara Bass, chairman
Gerald E. Napier, president
1986 Sales $317.1 million; 1985 Sales $319.0 million

Performance of I. Magnins Chicago, Washington D.C. and Phoenix stores boosted total division results in 1986.

Repositioning will continue in 1987, as better apparel assortments will be expanded, with particular emphasis on private label merchandise.

The division introduced a communications strategy in 1986 to strengthen its image as a fashion authority. Assortments and visual presentation improved, and additional emphasis was placed on high fashion in advertising and direct mail. Minor renovation projects were completed at a number of stores.

MainStreet
Chicago, Illinois; established 1983
John H. Eyler Jr., chairman
James J. Amann, president
1986 Sales $109.3 million; 1985 Sales $50.3 million

MainStreet opened six new stores in 1986. Three were in Greater Detroit, the division's first venture outside the Chicago area. Three more Detroit locations — as well as two in Chicago — are planned for opening in 1987.

MainStreet also announced nine new stores for 1988, including an entry into the Minneapolis/St. Paul market. This brings to 29 the number of stores opened and announced through 1988.

Year-to-year sales growth for existing stores has been strong, indicating that this division will make a major contribution to Federated's future growth.

Ralphs
Los Angeles, California; established 1873
Byron Allumbaugh, chairman
Patrick W. Collins, president
1986 Sales $2,045.7 million; 1985 Sales $1,813.6 million

The division opened 14 new-format Ralphs Giant stores in Greater Los Angeles in the second half of 1986. Each location averages 70,000 square feet and features large assortments of quality perishables — produce, bakery, deli, seafood and meat — around the perimeter and low-priced grocery products displayed on warehouse racking to accent value in the interior part of the store. In addition, four 40,000- to 45,000-square-foot superstores were opened.

Concurrent with the new stores, 18 smaller stores, averaging 32,000 square feet each, were closed.

Ralphs' sales in 1986 exceeded $2 billion for the first time, while profits also reached all-time highs.

Rich's
Atlanta, Georgia; established 1867
James M. Zimmerman, chairman
Merwin F. Kaminstein, president
1986 Sales $690.6 million; 1985 Sales $647.0 million

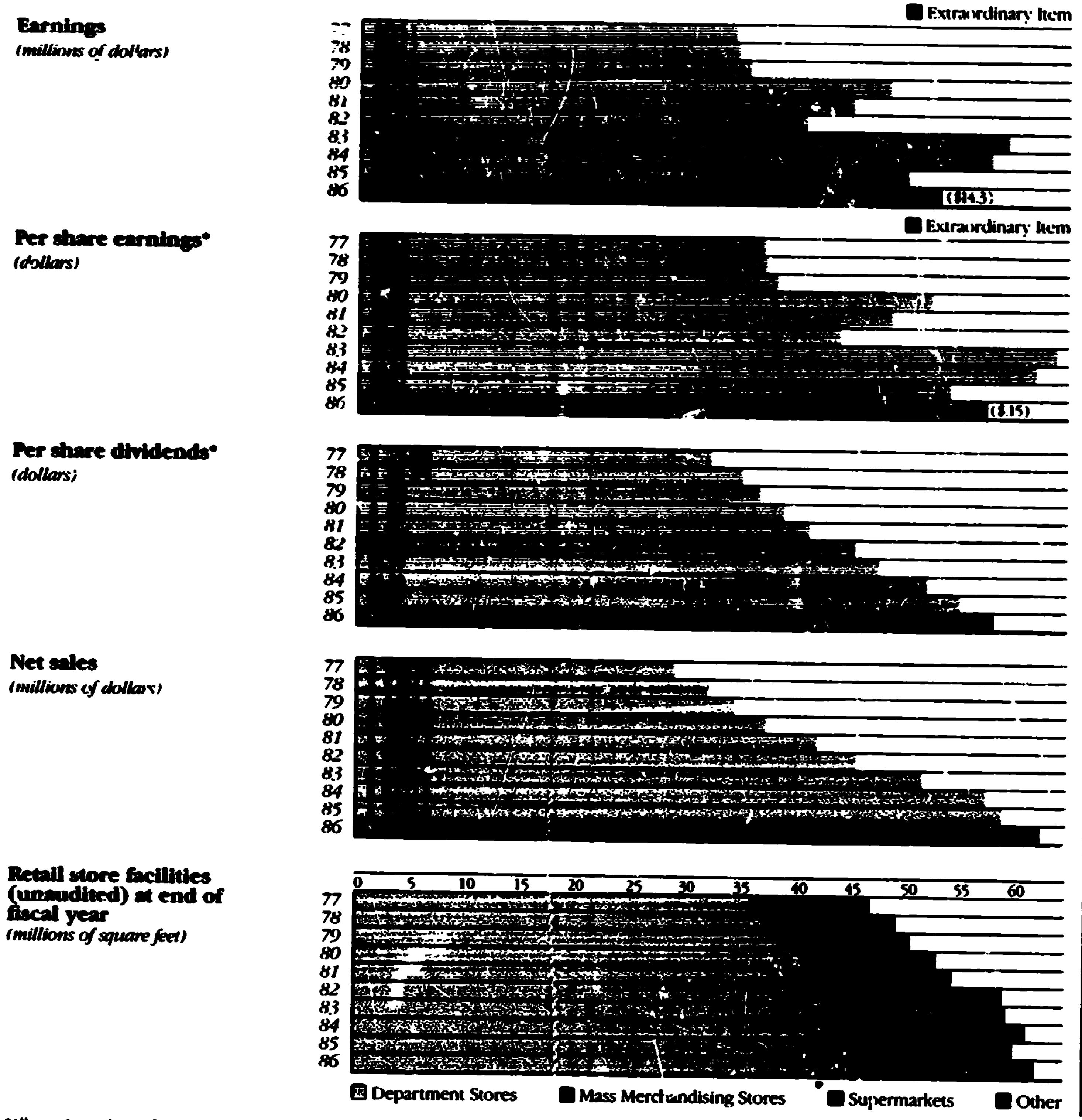
Rich's added a third location in the Birmingham, Alabama, market in 1986 with the opening of a department store in the Riverchase Galleria. In addition, a new store in Town Center was opened to serve the Atlanta and north Georgia markets.

The first phase of Rich's downtown store remodeling was completed in November.

The division continued its efforts to differentiate itself from competitors in the midst of a significant increase in the amount of competitive retail space in the Atlanta market.

Rich's opened a new 90,000-square-foot headquarters furniture store in December 1985 at Perimeter Mall. Early sales have been above expectations.

Federated Department Stores, Inc. Financial Report



*All per share data reflect the 2-for-1 common stock split on April 13, 1987.

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Consolidated Statement of Income

(in thousands, except per share data)	*52 Weeks Ended January 31, 1987*	*52 Weeks Ended February 1, 1986*	*53 Weeks Ended February 2, 1985*
Net Sales, including leased department sales of $324,200, $294,300 and $264,000	$10,512,425	$9,978,027	$9,672,336
Cost of sales, including occupancy and buying costs	7,698,628	7,314,725	7,097,683
Selling, publicity, delivery and administrative expenses	2,103,315	1,962,537	1,893,649
Provision for doubtful accounts	50,558	45,599	33,924
Interest expense — net	79,801	86,386	116,259
Unusual items — net	13,082	35,054	(42,609)
Total costs and expenses	9,945,384	9,444,301	9,098,906
Income Before Income Taxes and Extraordinary Item	567,041	533,726	573,430
Federal, state and local income taxes	265,100	247,100	244,100
Income Before Extraordinary Item	301,941	286,626	329,330
Extraordinary item — loss on early extinguishment of debt, net of tax effect of $14,527	(14,341)	—	—
Net Income	$ 287,600	$ 286,626	$ 329,330
Earnings Per Share of Common Stock:			
Income before extraordinary item	$3.12	$2.94	$3.38
Extraordinary item	(.15)	—	—
Net income	$2.97	$2.94	$3.38
Fully Diluted Earnings Per Share:			
Income before extraordinary item	$3.05	$2.87	$3.30
Extraordinary item	(.14)	—	—
Net income	$2.91	$2.87	$3.30

The accompanying notes are an integral part of these financial statements.
All per share data reflect the 2-for-1 common stock split on April 13, 1987.

Consolidated Balance Sheet

(in thousands)	*January 31, 1987*	*February 1, 1986*
Assets		
Current Assets:		
Cash	$ 101,097	$ 54,270
Accounts receivable	1,554,402	1,607,012
Merchandise inventories	1,405,992	1,320,097
Supplies and prepaid expenses	42,508	43,448
Total Current Assets	3,103,999	3,024,827
Property and Equipment — net	2,451,629	2,249,624
Other Assets	132,110	79,192
Total Assets	$5,687,738	$5,353,643
Liabilities and Shareholders' Equity		
Current Liabilities:		
Notes payable and long-term debt due within one year	$ 240,053	$ 42,749
Accounts payable and accrued liabilities	1,249,149	1,125,626
Income taxes	119,149	320,748
Total Current Liabilities	1,608,351	1,489,123
Deferred Income Taxes	420,042	186,091
Deferred Compensation and Supplementary Retirement	204,890	189,648
Long-Term Debt	791,901	781,513
Shareholders' Equity:		
Preferred stock	—	—
Common stock	118,876	62,196
Capital in excess of par value of common stock	25,597	98,506
Retained earnings	2,538,612	2,569,404
Less treasury stock at cost	20,531	22,838
Total Shareholders' Equity	2,662,554	2,707,268
Total Liabilities and Shareholders' Equity	$5,687,738	$5,353,643

The accompanying notes are an integral part of these financial statements.
Shareholders' Equity reflects, as of January 31, 1987, the 2-for-1 common stock split.

[redacted]

Consolidated Statement of Changes in Financial Position

(in thousands)	*52 Weeks Ended January 31, 1987*	*52 Weeks Ended February 1, 1986*	*53 Weeks Ended February 2, 1985*
Cash from Operations			
Income before extraordinary item	$301,941	$286,626	$329,330
Items not requiring outlay of cash:			
Depreciation and amortization	255,577	230,585	221,092
Deferred compensation and deferred income taxes	68,242	58,383	59,214
Equity in income of unconsolidated subsidiary	(19,841)	(844)	(44,505)
Cash provided from operations before extraordinary item	605,919	574,750	565,131
Extraordinary item	(14,341)	—	—
Total	591,578	574,750	565,131
Financing			
Net additions (reductions) — notes payable and long-term debt due within one year	197,304	(272,679)	(7,094)
Additions to long-term debt	333,454	101,237	105,113
Reductions of long-term debt	(323,066)	(30,448)	(25,856)
Total	207,692	(201,890)	72,163
Equity Transactions			
Dividends paid	129,541	123,916	116,755
Retirement of common stock	196,028	—	—
Other applications (sources)	6,745	(516)	1,913
Total	332,314	123,400	118,668
Investments			
Capital investment:			
Purchase of property and equipment	514,834	364,191	296,219
Disposition of property and equipment	(57,230)	(62,379)	(42,185)
Decrease in investment in, and advances to, unconsolidated subsidiaries	(3,295)	(23,056)	(62,821)
	454,309	278,756	191,213
Working capital used in operations:			
(Decrease) increase in accounts receivable	(52,610)	61,258	118,534
Increase in merchandise inventories	85,895	5,646	185,975
(Decrease) increase in supplies and prepaid expenses	(940)	(298)	8,017
Increase in accounts payable and accrued liabilities	(123,523)	(90,724)	(7,843)
Total	363,131	254,638	495,896
Current Income Tax Liability — decrease (increase)	201,599	30,463	(24,065)
Deferred Income Tax Liability — increase	(107,690)	—	—
Other Cash Applications — net	53,089	15,230	6,159
Increase (Decrease) in Cash	$ 46,827	$(50,871)	$ 40,636

The accompanying notes are an integral part of these financial statements.

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Notes to Financial Statements

1. Summary of Significant Accounting Policies

All subsidiaries are consolidated, except Federated Stores Realty, Inc., a wholly owned real estate subsidiary, which is accounted for on the equity method.

Installments of deferred payment accounts maturing after one year are included in current assets in accordance with industry practice. Profits on installment sales are included in income when the sales are made.

Merchandise inventories are substantially all valued by the retail method and stated on the LIFO (last-in, first-out) basis, which is lower than market.

Depreciation and amortization are provided primarily on a straight-line basis for book purposes over the shorter of estimated asset lives or lease terms.

Real estate taxes and interest on construction in progress and land under development are capitalized. Amounts capitalized are amortized over the estimated lives of depreciable assets.

Investment tax credits are accounted for under the flow through method. Deferred income taxes are provided on non-permanent differences between reported and taxable income, principally accelerated depreciation, deferred compensation and the deferment of gross margin on installment sales.

Earnings per share are computed on the basis of daily average number of shares outstanding during the year. Any dilution from the potential issuance of shares under the deferred compensation plan and the stock option plans would be less than three percent. Fully diluted earnings per share include the effect of the potential issuance of shares under the deferred compensation and the stock option plans.

Certain reclassifications were made to prior year financial statements to conform to current year presentation.

2. Unusual Items

In 1986, the unusual items include a $31.7 million provision, before income taxes, for the expenses associated with the merger of two department store divisions and $18.6 million in gains from the sale by Federated Stores Realty, Inc., of its interest in two shopping centers. The equity in the gains on the shopping center sales is reported net, after reduction for federal, state and local income taxes, provision for profit-sharing expense and other expenses.

Unusual items in 1985 represent the gain of $13.1 million, before income taxes, on the sale of the Milwaukee-based Boston Store division and a provision for reorganization expense amounting to $48.2 million, before income taxes. The reorganization includes the merger of two department store divisions, the merger of two mass merchandising divisions and the reorganization or regionalization of selected corporate office and divisional functions.

The unusual items in 1984 represent the sale by Federated Stores Realty, Inc., of two shopping centers. The equity in the gains on these sales, amounting to $42.6 million, is reported net.

3. Extraordinary Item

In 1986, the company took advantage of currently favorable interest rates by repurchasing $160.3 million of 10-1/4% Sinking Fund Debentures due 2010, $86.1 million of 10-5/8% Sinking Fund Debentures due 2013, $28.0 million of 11% Euronotes due 1990 and $22.6 million of 10-1/8% Euronotes due 1995. These repurchases resulted in an extraordinary loss of $14.3 million, net of income tax benefit of $14.5 million.

4. Accounts Receivable

(millions)	*January 31, 1987*	*February 1, 1986*
Due from customers:		
30-day	$ 62.8	$ 65.1
Deferred payment	1,431.0	1,483.2
Other	95.5	95.2
Gross receivables	1,589.3	1,643.5
Less:		
Allowance for doubtful accounts	32.6	33.1
Deferred service charges	2.3	3.4
	34.9	36.5
Net receivables	$1,554.4	$1,607.0
Allowance for doubtful accounts as % of gross receivables	2.1%	2.0%

Sales through credit plans of Federated divisions in 1986 were $3.9 billion, up .8% from 1985. The sales for 1985 had increased .9% from 1984 and sales for 1984 had increased 8.9% from 1983.

Finance charge revenues, which are included in net sales in the Consolidated Statement of Income, amounted to $211.8 million in 1986, $212.9 million in 1985 and $198.1 million in 1984.

5. Inventories

Merchandise inventories at the 1986 year end were $1,406.0 million, compared to $1,320.1 million at the end of the preceding year. At year end 1986, 1985 and 1984, inventories were $270.2 million, $261.3 million and $260.0 million lower than they would have been had the retail method been used without the application of the LIFO basis. This application resulted in after-tax charges of $4.4 million in 1986 and $3.8 million in 1985 and an after-tax credit of $5.8 million in 1984. Management believes that the LIFO method, which charges the most recent merchandise costs to the results of current operations, provides a better matching of current costs with current revenues in the determination of net income.

6. Properties and Leases

(millions)	January 31, 1987	February 1, 1986
Land	$ 135.1	$ 140.1
Buildings on owned land	1,060.5	1,039.6
Buildings on leased land and leasehold improvements	642.4	552.1
Store fixtures and equipment	1,599.0	1,421.8
Property not used in operations	92.3	84.4
Leased properties under capitalized leases	210.1	191.2
	3,739.4	3,429.2
Less accumulated depreciation and amortization	1,287.8	1,179.6
	$2,451.6	$2,249.6

In connection with certain shopping center agreements, the company is obligated to operate stores within the centers for periods of up to 20 years. Some of these agreements require that the stores be operated under a particular name.

Major commitments for the future purchase or construction of facilities at January 31, 1987, amounted to approximately $173 million.

The company leases a portion of the real estate and personal property used in its operations. Most leases require the company to pay real estate taxes, maintenance and other executory costs, some call for additional amounts based on percentages of sales and some contain purchase options.

Minimum rental commitments (excluding executory costs) at January 31, 1987, for noncancellable leases are:

(millions)	Capital Leases	Operating Leases	Total
Fiscal year:			
1987	$ 20.7	$ 71.4	$ 92.1
1988	19.1	67.7	86.8
1989	18.2	66.5	84.7
1990	17.0	64.6	81.6
1991	16.5	62.5	79.0
After 1991	144.8	507.3	652.1
Total minimum lease payments	$236.3	$840.0	$1,076.3
Less amount representing interest	104.7		
Present value of net minimum capital lease payments	$131.6		

Capitalized leases are included in the balance sheet as property and equipment while the related obligation is included as short-term ($9.2 million) and long-term ($122.4 million) debt. The charge to income for the amortization of capitalized leases in the amount of $9.2 million, $10.4 million and $11.5 million for Fiscal 1986, 1985 and 1984, respectively, is included in depreciation and amortization expense. Total minimum lease payments shown above have not been reduced by minimum sublease rentals of approximately $9.7 million on capital leases and $27.5 million on operating leases.

Rental expense consists of:

(millions)	1986	1985	1984
Real estate (excluding executory costs)			
Capital leases —			
Contingent rentals	$ 3.4	$ 3.2	$ 3.1
Operating leases —			
Minimum rentals	64.1	46.4	39.8
Contingent rentals	7.4	7.4	6.5
Less income from subleases —			
Capital leases	3.0	2.6	2.4
Operating leases	9.7	8.8	4.3
	$62.2	$45.6	$42.7
Personal property — Operating leases	$24.0	$26.4	$28.9

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Gross square feet of store space (unaudited) at year end is:

(square feet in thousands)	January 31, 1987 Units	Gross Space	February 1, 1986 Units	Gross Space
Abraham and Straus*	15	5,578	15	5,538
Bloomingdale's	16	4,269	15	4,024
Bullock's/Bullocks Wilshire	28	4,805	27	4,680
Burdines	29	5,069	29	5,064
Filene's	16	2,117	16	2,117
Foley's**	37	8,003	35	7,654
Goldsmith's	6	1,338	6	1,338
Lazarus	32	7,385	31	7,517
I. Magnin	26	1,828	26	1,828
Rich's	20	4,878	17	4,308
Total Department Stores	225	45,270	217	44,068
Mass Merchandising — Gold Circle	76	8,239	76	8,259
Supermarkets — Ralphs	127	5,324	127	4,607
The Children's Place	166	880	158	854
Filene's Basement	22	801	17	687
MainStreet	15	1,088	9	668
Total Other	203	2,769	184	2,209
Total	631	61,602	604	59,143

*Includes store scheduled to close in January 1988.
**Foley's and Sanger Harris were combined into one division on January 16, 1987.

New units scheduled to open in 1987 (unaudited) and their gross square footage are shown below:

Division	Location	Square Feet in Thousands
Bullock's	Palm Desert, CA	57
Filene's		
three stores	To be announced	220
Foley's	Corpus Christi, TX	200
Lazarus	Owensboro, KY	58
	Zanesville, OH	50
	Lancaster, OH	50
Ralphs	Lancaster, CA	70
The Children's Place		
ten stores	Various states	25
Filene's Basement		
two stores	To be announced	50
MainStreet		
three stores	Detroit, MI	210
two stores	Chicago, IL	140
		1,130

7. Financing

During 1986 and 1985, average short-term commercial paper and master note borrowings were $170.4 million and $219.6 million and the maximum outstanding at any time during the year was $589.2 million and $393.8 million, respectively. In addition there was a $200.0 million short-term bank loan which was outstanding four weeks in the fourth quarter. The weighted daily average interest rates for all short-term borrowings were approximately 6.2% and 8.0%.

Bank short-term credit lines aggregating $636.0 million were available at year end

Long-term debt outstanding at year end includes:

(millions)	January 31, 1987	February 1, 1986
Notes due 1996, 7⅞%	$200.0	$ —
Sinking fund debentures due 2016, 9½%	100.0	—
Euronotes due 1993, 10⅛%	77.4	100.0
Notes due 2002, 7.95%	75.0	80.0
Euronotes due 1990, 11%	72.0	100.0
Sinking fund debentures due 2010, 10¼%	39.7	200.0
Sinking fund debentures due 2002, 7⅛%	37.5	39.9
Sinking fund debentures due 1995, 8⅜%	20.0	22.5
Sinking fund debentures due 2013, 10⅝%	13.9	100.0
Sinking fund debentures due 1997, 7.35%	8.1	8.9
Notes due 1991, 10%	4.0	5.0
Other, average 9%	22.1	22.8
	669.5	679.1
Obligations under capitalized leases	122.4	102.4
	$791.9	$781.5

A summary of future maturities of long-term debt, other than capitalized leases, is shown below:

(millions)	Amount
Fiscal year:	
1987	$ 10.7
1988	19.4
1989	87.5
1990	12.2
1991	12.2
After 1991	538.2

8. Accounts Payable and Accrued Liabilities

(millions)	*January 31, 1987*	*February 1, 1986*
Merchandise and expense accounts payable	$ 844.4	$ 760.6
Accrued wages, vacations and sick leave	78.9	80.0
Taxes other than income taxes	52.9	48.4
Accrued reorganization expense	34.2	46.6
Other	238.7	190.0
	$1,249.1	$1,125.6

9. Taxes

Current liability for income taxes includes a deferred amount at year end of $37.8 million in 1986 and $248.1 million in 1985 from deferral of gross margin on installment sales. The Tax Reform Act of 1986 (the Act) eliminates the installment method of reporting with respect to revolving credit plans. At January 31, 1987, the deferred income tax liability in connection with the deferral of such gross margin has been classified as current or noncurrent based upon the payment provisions promulgated under the Act which require payment over the next four years. In addition, the Act eliminates the reserve method of computing deductions for bad debts. While this will have future implications on the timing of the payment of income taxes, it will not affect future income tax provisions.

Deferred income tax liability is principally the net result of deferred tax charges related to deferred compensation, and deferred tax credits from accelerated depreciation and deferral of gross margin on installment sales (as discussed above).

The income tax provision before extraordinary item consists of:

(millions)	*1986*	*1985*	*1984*
Federal	$220.5	$203.7	$200.5
State and local	44.6	43.4	43.6
	$265.1	$247.1	$244.1
Effective income tax rate	46.8%	46.3%	42.6%

The effective income tax rate differs from the federal income tax statutory rate primarily because of investment tax credits, preferential tax treatment on capital gains, state and local income taxes and, where applicable, the recording of the equity in the gain on the sale of shopping centers on an after-tax basis. Investment tax credits, accounted for under the flow through method, totaled $4.9, $16.4 and $15.9 million for the three years shown above.

The Act repealed, with certain exceptions, the investment tax credit for property placed in service after 1985.

Deferred income tax charges and credits are included in the provision for income taxes as follows:

(millions)	*1986*	*1985*	*1984*
Deferred charges (credits) arising from:			
Capitalized interest and taxes, expensed for tax purposes, and accelerated depreciation	$38.3	$31.5	$37.9
Gross margin on deferred payment sales which are on the installment method for tax purposes	(12.6)	10.4	15.2
Provision for reorganization expense	5.7	(23.1)	—
Provisions for deferred compensation and supplementary retirement, deductible for tax purposes only at the time of distribution	(7.1)	(7.7)	(7.6)
Other current and deferred items	(9.7)	3.1	(1.2)
	$14.6	$14.2	$44.3

Effective in Fiscal 1987, certain costs related to the procurement and processing of merchandise will not be currently deductible under the Act. The impact on future income tax payments as a result of this change has not been determined.

Internal Revenue Service examination of federal income tax returns has been completed for years ended through January 31, 1981. The company contested certain issues for the year ended January 31, 1981, and a tentative settlement has been reached on these issues. Management believes that adequate provision has been made for these issues, as well as for subsequent years through January 31, 1987.

10. Retirement Income and Deferred Compensation Plans

The company has two defined benefit plans (Pension Plans) and a defined contribution plan (Profit Sharing Plan) which cover substantially all employees who work 1,000 hours or more per year. In addition, the company has a supplementary retirement plan and makes contributions to several multi-employer defined benefit plans primarily relating to employees covered by collective bargaining agreements in the supermarket industry.

Total Retirement Expense

Retirement expense, consisting of pension and profit sharing expense, as well as contributions to multi-employer plans and provisions for supplementary retirement benefits totaled $61.4 million for 1986, $61.5 million for 1985 and $60.4 million for 1984.

Pension Expense

Pension plan benefits are primarily based on a formula using the highest five consecutive years' average earnings during the last ten years of credited service. For employees with service before 1984, accumulated benefits under the Retirement Income portion of the Profit Sharing Plan are included in the formula used to determine pension plan benefits.

The supplementary retirement plan includes benefits in excess of qualified plan limitations and benefits attributable to deferred compensation.

Total pension expense related to these plans amounted to $32.7 million in 1986, $34.9 million in 1985 and $[illegible].3 million in 1984. In 1986, the company adopted certain provisions of Statement of Financial Accounting Standards (SFAS) No. 87, Employers' Accounting for Pensions. The adoption of SFAS No. 87 reduced 1986 pension expense by $2.3 million.

Net pension expense for the company's Pension Plans and the supplementary retirement plan for 1986 included the following actuarially determined components:

(millions)		*Pension Plans*		*Supplementary Retirement Plan*
Service cost		$20.3		$1.5
Interest cost on projected benefit obligations		15.1		1.6
Actual return on assets	$(25.5)		$ —	
Deferral of unanticipated investment performance	17.3		—	
		(8.2)		—
Amortization of unrecognized net obligation (asset) existing at adoption of SFAS No. 87 (amortized over 15 years)		3.0		(.6)
		$30.2		$2.5

The following table sets forth the projected actuarial present value of benefit obligations and funded status at December 31, 1986 for the pension and supplementary retirement plans:

(millions)		*Pension Plans*		*Supplementary Retirement Plan*
Accumulated benefit obligations		$283.7		$10.4
Less: Present value of net accumulated benefits available under the Profit Sharing Plan		115.3		—
Net accumulated benefit obligations, including vested benefits of $177.6 million and $9.5 million, respectively		168.4		10.4
Plus: Projected benefit obligations in excess of accumulated benefit obligations (resulting from provisions for estimated future compensation levels)		47.6		12.5
Projected benefit obligations		216.0		22.9
Plan assets*	$158.0		$ —	
Plus: Unamortized net obligation (asset) at January 1, 1986	48.6		(9.3)	
Less: Unrecognized gain	(14.6)		—	
		192.0		(9.3)
Accrued pension liability		$ 24.0		$32 2

**Primarily stocks, bonds, government securities and real estate. Excludes receivable for the company's 1986 contribution.*

The expected long-term rate of return on plan assets was 8% for 1986, 1985 and 1984. The weighted average discount rate and annual rate of increase in future compensation levels used in determining the actuarial present value of projected benefit obligations for 1986 were 8% and 6%, respectively.

The company's policy is to fund the Pension Plans at or above the minimum required by law. The supplementary retirement plan is not funded.

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Profit Sharing Expense

The company's Profit Sharing Plan includes a voluntary savings feature for eligible employees and is designed to enhance existing retirement programs of eligible employees and to assist them in strengthening their financial security by providing an incentive to save and invest regularly. The company's contribution for the savings feature is a percentage of the company's pre-tax earnings for the year and is held primarily in company stock. The profit sharing expense amounted to $8.6 million, $9.3 million and $9.1 million in 1986, 1985 and 1984, respectively. The Profit Sharing Plan had net assets at December 31, 1986, aggregating $816.3 million held in an independent trust.

Multi-Employer Plans and Other Expense

The company had pension expense of $20.1 million, $17.3 million, and $18.0 million in 1986, 1985 and 1984, respectively, primarily for contributions to multi-employer defined benefit plans as determined by various collective bargaining agreements. The relative position of the company regarding the accumulated plan benefits and plan net assets of multi-employer plans is not determinable by the company.

Deferred Compensation Plan

Deferred compensation liability represents principally cash and stock credits distributable after retirement or termination under the company's Executives Deferred Compensation Plan, in which eligible executives may elect to defer a portion of their compensation each year. Provisions have been made in the Executives Deferred Compensation Plan to provide for conversion of all stock credits into cash credits and to provide for immediate payment in the event of a change of control of the company as defined in the plan.

11. Post-retirement Health Care and Life Insurance Benefits

Certain retired employees are currently provided with specified health care and life insurance benefits. Eligibility requirements for such benefits vary by division, but generally state that benefits are available to employees who retire after a certain age with specified years of service. Such health care and life insurance benefits are provided to both retired and active employees through a medical benefit trust, a group life trust, and insurance companies with insurance premiums based on benefits paid. The cost of providing these benefits to 8,000 eligible retirees is not separable from the cost of providing benefits for the 81,000 participating active employees. The total cost of such benefits, after employee contributions, was $55.9 million in 1986, $47.5 million in 1985 and $51.5 million in 1984.

12. Employee Stock Plans

The company has several stock option plans which provide for grants of either qualified or nonqualified options at not less than 100% of market. These plans allow for the grant of stock appreciation rights in connection with options under the plans. Stock option transactions, including options for which stock appreciation rights have been granted, are as follows (post-split basis):

	1986		*1985*	
(shares in thousands)	*Shares*	*Grant Price*	*Shares*	*Grant Price*
Outstanding, beginning of year	2,057.0	$12-32	2,522.1	$12-32
Granted at 100% of market	546.5	40-44	595.9	28-31
Expired or cancelled	(167.9)	12-40	(437.0)	12-31
Exercised	(494.0)	12-32	(624.0)	12-31
Outstanding, end of year	1,941.6	$12-44	2,057.0	$12-32
Exercisable, end of year	633.9	$12-32	714.1	$12-32
Available for additional grants	3,659.2			

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Stock appreciation rights for 405,000 shares were outstanding at year end.

The company's stock option plans contain a provision whereby options outstanding for more than one year will become exercisable in the event of a change of control as defined in the plans.

The company also has restricted stock purchase and restricted stock grant plans. As of January 31, 1987, 428,000 shares and 1,484,000 shares, respectively, were available for future grants under the plans.

13. Shareholders' Equity

(millions)	*1986*	*1985*	*1984*
Preferred stock	$ —	$ —	$ —
Common stock — par value:			
Balance, beginning of year	62.2	62.2	62.2
Retirements	(2.7)	—	—
2-for-1 stock split	59.4	—	—
Balance, end of year	118.9	62.2	62.2
Capital in excess of par value of common stock:			
Balance, beginning of year	98.5	102.4	105.5
Net charge from treasury stock	(9.1)	(3.9)	(3.1)
Retirement of common stock	(4.4)	—	—
2-for-1 stock split	(59.4)	—	—
Balance, end of year	25.6	98.5	102.4
Retained earnings:			
Balance, beginning of year	2,569.4	2,406.7	2,194.1
Net income	287.6	286.6	329.3
Cash dividends	(129.5)	(123.9)	(116.7)
Retirement of common stock	(188.9)	—	—
Balance, end of year	2,538.6	2,569.4	2,406.7
Less treasury stock:			
Balance, beginning of year	22.8	27.2	28.4
Additions	23.1	18.3	12.9
Deductions	(25.4)	(22.7)	(14.1)
Balance, end of year	20.5	22.8	27.2
Total shareholders' equity	$2,662.6	$2,707.3	$2,544.1

The authorized shares of the company consist of 5.0 million preferred shares, no par value with none issued and 200.0 million common shares, par value $1.25 per share with 95.1 million shares issued in 1986 and 99.5 million shares issued in 1985 and 1984. The company increased the authorized shares of common stock from 100.0 million to 200.0 million on May 29, 1986. Common shares outstanding at year end totaled 93.3 million in 1986, 97.6 million in 1985 and 97.3 million in 1984.

During 1986, the company's Board of Directors authorized the repurchase of up to 10 million shares (20 million shares post-split) of its common stock. As of January 31, 1987, 2.2 million shares (4.4 million shares post-split) had been repurchased and retired. The company recorded the entire purchase price as the cost of the shares.

Excluding the stock split and retirement of common stock, the net change in capital in excess of par value of common stock results from the issuance of treasury shares in connection with employee stock plans and debenture conversions.

Changes in the number of shares held in the treasury during the three years ended January 31, 1987, are as follows:

(thousands)	*1986*	*1985*	*1984*
Balance, beginning of year	1,952	2,230	2,352
Purchased	554	590	516
Deductions:			
Deferred compensation plan	(152)	(162)	(166)
Stock option plans	(494)	(624)	(305)
Restricted stock grant plans	(41)	(55)	(142)
Debentures converted to common stock	—	(27)	(25)
Balance, end of year	1,819	1,952	2,230

On January 23, 1986, the company declared a dividend of one preferred stock purchase right (one-half right post-split) on each outstanding share of common stock. Under certain conditions, each full right may be exercised to purchase one one-hundredth of a share of a new series of preferred stock at an exercise price of $250 per one one-hundredth of a share, subject to adjustment. The rights may only be exercised after a public announcement that a party acquired or obtained the right to acquire 20% or more of the outstanding shares of the company's common stock or after commencement or public announcement of an offer for 30% or more of the company's common stock. The rights, which do not have voting rights, expire on February 5, 1996, and may be redeemed by the company at a price of $.05 per right at any time prior to 10 days (or such longer period as the Board of Directors may determine) after the acquisition of 20% of the company's common stock.

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In the event that the company is acquired in a merger or other business combination transaction or a party acquires more than 50% of the company's common stock or in the event of a self-dealing by an acquiring party, each holder of a right shall have the right to receive, upon exercise thereof at the then current exercise price, that number of shares of common stock (or, in certain circumstances, cash, property or other securities) of the surviving company which at the time of such transaction would have a market value of two times the exercise price of the right.

14. Business Segments

Total assets of the department stores, mass merchandising stores, supermarkets, other stores (The Children's Place, Filene's Basement and MainStreet) and central office are as follows:

(millions)	January 31, 1987	February 1, 1986	February 2, 1985
Department stores	$4,287.5	$4,163.7	$3,921.7
Mass merchandising	379.3	391.7	417.2
Supermarkets	548.0	378.5	345.3
Other	353.6	279.3	211.2
Central office	119.3	140.4	376.0
	$5,687.7	$5,353.6	$5,271.4

Central office assets principally include an investment in and advances to an unconsolidated wholly owned subsidiary and general corporate assets.

Capital expenditures include:

(millions)	1986	1985
Land	$ 7.4	$ 10.0
Buildings, fixtures and equipment:		
Department stores	266.3	243.4
Mass merchandising	12.5	11.7
Supermarkets	158.6	36.8
Other	66.4	59.0
Central office	3.6	3.3
	$514.8	$364.2

Depreciation and amortization of the department stores amounted to $179.8, $163.7 and $155.3 million for 1986, 1985 and 1984, respectively. Mass merchandising stores incurred depreciation and amortization of $21.1, $21.5 and $23.3 million, supermarkets incurred $34.7, $29.9 and $29.3 million, other stores incurred $15.2, $10.6 and $7.1 million and central office incurred $4.8, $4.9 and $6.1 million for the past three years.

Year-end inventories of the department stores, mass merchandising stores, supermarkets and other stores are shown below:

	Department Stores		Mass Merchandising		Supermarkets		Other	
(millions) Fiscal Year	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
1986	$1,033.9	73.5%	$165.5	11.8%	$102.4	7.3%	$104.2	7.4%
1985	987.5	74.8	170.1	12.9	77.3	5.9	85.2	6.4
1984	1,004.3	76.4	167.4	12.7	65.6	5.0	77.2	5.9
1983	857.4	76.0	146.6	13.0	67.6	6.0	56.9	5.0
1982	714.4	75.7	142.0	15.0	56.6	6.0	30.9	3.3

Operating profit of the department stores, mass merchandising stores, supermarkets and other stores is detailed below:

	Department Stores		Mass Merchandising		Supermarkets		Other	
(millions) Fiscal Year	Amount	% of Sales	Amount	% of Sales	Amount	% of Sales	Amount	% of Sales
1986	$628.7	9.0%	$31.8	3.3%	$59.2	2.9%	$(6.9)	(1.3)%
1985	621.9	9.3	39.0	3.7	58.7	3.2	(9.5)	(2.3)
1984	619.7	9.4	31.8	3.0	43.9	2.6	(2.7)	(.8)
1983	637.5	10.7	39.1	3.9	49.2	3.3	5.3	2.1
1982	494.0	9.1	23.4	2.8	37.0	2.9	10.0	5.3

Operating profit represents the pre-tax profit from operations of the divisions. Unallocated central office costs, interest expense and other non-operating and unusual items aggregated $145.8, $176.4, $119.3, $130.1 and $142.7 million for the years shown above.

Sales of the department stores, mass merchandising stores, supermarkets and other stores are as follows:

	Department Stores		Mass Merchandising		Supermarkets		Other	
(millions) Fiscal Year	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
1986	$6,974.3	66.3%	$ 969.2	9.2%	$2,045.7	19.5%	$523.2	5.0%
1985	6,684.7	67.0	1,057.9	10.6	1,813.6	18.2	421.8	4.2
1984	6,566.6	67.9	1,059.9	11.0	1,711.3	17.7	334.5	3.4
1983	5,970.3	68.7	991.1	11.4	1,473.7	17.0	254.5	2.9
1982	5,412.2	70.3	822.9	10.7	1,275.7	16.6	188.1	2.4

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Sales increases by business segment in 1986, 1985 and 1984 for all stores and for comparable stores follow. Sales for "all stores excluding closed operations" exclude sales of the Boston Store division which was sold on March 27, 1985, mass merchandising operations in Pennsylvania which were closed on January 26, 1986, and the Bullock's Northern California division which began liquidation on October 29, 1983. Comparable store sales include only stores open for the full fiscal years being compared.

	Department Stores	Mass Merchandising	Supermarkets	Other	Total
% Increase from Prior Year					
1986*					
All stores	4.3%	(8.4)%	12.8%	24.0%	5.4%
All stores excluding closed operations	4.6	(2.9)	12.8	24.0	6.2
Comparable stores	2.3	(2.8)	6.1	1.4	2.4
1985**					
All stores	1.8	(.2)	6.0	2[illegible].1	3.2
All stores excluding closed operations	3.9	(.5)	6.0	26.[illegible]	4.6
Comparable stores	2.4	.8	6.0	3.2	2.9
1984***					
All stores	10.0	6.9	16.1	31.[illegible]	11.3
All stores excluding closed operations	11.2	7.1	16.1	31.4	12.2
Comparable stores	8.0	5.6	8.1	12.3	7.9

*Compares two 52-week years.
**Compares a 52-week year to a 53-week year.
***Compares a 53-week year to a 52-week year.

15. Subsequent Event

On March 26, 1987, the company's Board of Directors declared a 2-for-1 split of its common stock effected in the form of a 100% stock dividend on outstanding stock to be distributed on May 11, 1987, to shareholders of record on April 13, 1987.

All references in the financial statements with regard to number of shares of common stock and per share amounts have been restated to reflect the stock split.

Equal Employment Opportunity

In 1986, the company and its divisions continued to advance in their voluntary programs of equal opportunity in employment and purchasing, as well as their involvement in — and contribution to — community activities.

In 1986, total minority employment was 27.3%, up from 25.9% in 1985 and 23.5% five years ago. During the five-year period 1982-1986, employment of minorities in management positions increased from 11.8% to 12.5%.

The total female employment in 1986 was 71.9%. For the five-year period, 1982-1986, employment of females in management positions increased from 58.4% to 62.9%.

Federated's corporatewide Minority Purchasing Program continued to grow in 1986. The program is designed to assist the divisions in identifying qualified minority vendors for mercha

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Management's Report

To the Shareholders of
Federated Department Stores, Inc.

The financial statements of Federated Department Stores, Inc., were prepared in accordance with generally accepted accounting principles. The integrity and consistency of these financial statements and of other data presented in this report are the responsibility of management and properly include some amounts that are based upon estimates and judgments.

The company maintains a system of internal accounting controls, which is supported by an extensive program of internal audits with appropriate management follow-up action to provide reasonable assurance, at appropriate cost, that the company's assets are protected and transactions are properly recorded. Additionally, the integrity of the financial accounting system is based on careful selection and training of qualified personnel, organizational arrangements which provide for appropriate division of responsibilities and communication of established written policies and procedures.

The financial statements of the company have been examined by Touche Ross & Co., independent certified public accountants. Their report expresses their opinion as to the fair presentation of the financial statements and is based upon their independent examination conducted in accordance with generally accepted auditing standards

The Audit Committee, composed solely of outside directors, meets periodically with the independent certified public accountants, the internal auditors and representatives of management to discuss auditing and financial reporting matters. In addition, the independent certified public accountants and the company's internal auditors meet periodically with the Audit Committee without management representatives present and have free access to the Audit Committee at any time. The Audit Committee is responsible for recommending to the Board of Directors the engagement of the independent certified public accountants, which is subject to shareholder approval.

Howard Goldfeder
Chairman and Chief Executive Officer

Will M. Storey
Vice Chairman

Jack Brown
Vice President and Controller

Accountants' Report

Touche Ross & Co.
1633 Broadway
New York, New York 10019

Board of Directors and Shareholders,
Federated Department Stores, Inc.
Cincinnati, Ohio 45202

We have examined the consolidated balance sheets of Federated Department Stores, Inc., and subsidiaries as of January 31, 1987, and February 1, 1986, and the related statements of income, shareholders' equity and changes in financial position for each of the three years in the period ended January 31, 1987. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of Federated Department Stores, Inc., and subsidiaries at January 31, 1987, and February 1, 1986, and the results of their operations and the changes in their financial position for each of the three years in the period ended January 31, 1987, in conformity with generally accepted accounting principles applied on a consistent basis.

March 17, 1987
(March 26, 1987 as to Note 15)

Touche Ross & Co.
Certified Public Accountants

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

The following discusses the company's financial condition and results of operations during the three years ended January 31, 1987, which are presented in the accompanying financial statements. Note the Five-Year Operating Data shown on page 38 and the Consolidated Eleven-Year Table of Selected Financial Data shown on page 40. All share and per share data reflect the 2-for-1 common stock split on April 13, 1987.

Financial Results

Earnings for 1986 were $287.6 million, or $2.97 per share, including an extraordinary expense item discussed under Liquidity and Capital Resources. Excluding the extraordinary expense item, net earnings for Fiscal 1986 were $301.9 million, or $3.12 per share. This represents an increase of 5.3 percent compared to net earnings of $286.6 million, or $2.94 per share in 1985.

Results for 1986 include the effects of strategic decisions, repositioning and legislative actions during the year which, taken together, reduced earnings. We expect to begin seeing positive results, beginning in 1987, from the factors discussed below:

1) The repurchase and retirement in 1986, of 4.4 million shares of the company's outstanding common stock, which positively impacted earnings per share for 1986;
2) An after-tax expense of $15.7 million in 1986, resulting from the merger of two department store divisions. Results for 1985 reflected an after-tax expense of $23.9 million for the merger of two department store divisions, the merger of two mass merchandising divisions and the reorganization or regionalization of certain corporate office and divisional functions;
3) The Tax Reform Act of 1986 repealed the investment tax credit for property placed in service after 1985, with certain exceptions, reducing the company's tax credit to $4.9 million in 1986 compared to $16.4 million in 1985;
4) A provision for loss on the disposition of a division's two department stores in the Philadelphia area, as well as pre-opening expenses for a new department store of this same division totaling $9.0 million after taxes in 1986;
5) Capital expenditures of $158.6 million in 1986 primarily to acquire and open 14 Ralphs Giant stores and four superstores, as well as to implement a modernization and expansion of this division's distribution center. In conjunction with these store openings, 18 older and smaller locations were closed. These actions position this division for a major growth phase. In 1986, however, the division's income was reduced by major pre-opening expenses, marketing costs and adjustments to liability reserves, which were more than offset by real estate disposition gains (which are included as part of central office operations);
6) A substantial increase in expense in 1986, amounting to $5.9 million after taxes, for store remodels, expansions and openings in the Department Stores segment, as well as new stores in the Other Stores segment; and,
7) An $18.6 million after-tax gain from the sale by Federated Stores Realty, Inc., an unconsolidated wholly owned subsidiary, of its interest in two shopping centers in 1986. Results for 1985 reflected an after-tax gain of $6.6 million on the sale of the Boston Store division.

We believe that the above and other strategic actions taken over the past several years to improve our competitive position and reduce our expense structures will serve the company well in meeting the challenge of the future.

Earnings for 1985 of $286.6 million had decreased from the 1984 earnings of $329.3 million. Earnings for 1984 included equity in the gain on the sale of two shopping centers amounting to $42.6 million after taxes.

Sales for the 52 weeks ended January 31, 1987, increased 5.4%. Sales for the 52-week 1985 fiscal year had increased 3.2% compared to the 53-week 1984 fiscal year. Consolidated 1985 sales include the Boston Store division's results until its sale in March 1985 and mass merchandising operations in Pennsylvania until closed in January 1986. If sales of the Boston Store division and mass merchandising operation in Pennsylvania were excluded from 1985 and 1984, the year-to-year increases would have been 6.2% for 1986 and 4.6% for 1985. Sales increases in the two most recent years reflect investment in new and expanded stores and the effects of inflation (which is estimated at 1.2% and 2.0% for these two years). Comparable stores sales data is discussed in detail on page 33.

Department Stores' sales increased 4.3% in 1986, compared to a 1.8% increase in the year before. Excluding sales of the Boston Store division from 1985 and 1984, the Department Stores' sales increases would have been 4.6% in 1986 and 3.9% in 1985. Operating profit of the Department Stores segment was $628.7 million in 1986, $621.9 million in 1985 and $619.7 million in 1984. In 1986, the company added 10 new department stores and closed two department stores. In 1985, the company added three new department stores and closed 11 department stores.

The Mass Merchandising Stores' sales decreased 8.4% in 1986, compared to a .2% decrease in 1985. Excluding sales of mass merchandising operations in Pennsylvania from 1985 and 1984, the Mass Merchandising Stores sales decreases would have been 2.9% in 1986 and .5% in 1985. Mass Merchandising Stores' operating profit was $31.8 million in 1986, $39.0 million in 1985 and $31.8 million in 1984. In 1986, there was no change in the number of mass merchandising stores. In 1985, five mass merchandising stores were closed.

Sales of Supermarkets increased 12.8% in 1986 and 6.0% in 1985. Supermarkets' operating profit was $59.2 million in 1986, $58.7 million in 1985 and $43.9 million in 1984. In 1986, 18 new supermarkets were opened and 18 older and smaller supermarkets were closed. In 1985, one new supermarket was opened.

Sales of Other Stores increased 24.0% in 1986 and 26.1% in 1985. Other Stores reflect operating losses of $6.9 million in 1986, $9.5 million in 1985 and $2.7 million in 1984. In 1986, 22 new other stores were opened and three were closed. In 1985, 27 new other stores were opened.

Consolidated cost of sales, including occupancy and buying costs, as a percent of sales for 1986, 1985 and 1984, was 73.2%, 73.3% and 73.4%, respectively. The 1986 LIFO charge, before taxes, increased $1.6 million for Department Stores and $8.0 million for Mass Merchandising Stores compared to the prior year. In 1986 LIFO for Supermarkets and Other Stores decreased, before taxes, $7.7 million and $.7 million, respectively.

Selling, publicity, delivery and administrative expenses as a percent of sales were 20.0%, 19.7% and 19.6% for 1986, 1985 and 1984, respectively.

Depreciation and amortization expense was $255.6 million in 1986, compared to $230.6 million in 1985 and $221.1 million in 1984. Advertising expense amounted to $321.3 million in 1986, $303.3 million in 1985, and $287.5 million in 1984.

Provision for doubtful accounts was $50.6 million in 1986, $45.6 million in 1985 and $53.9 million in 1984. Credit sales made through the divisions credit plans increased .8%, compared to a .9% increase in 1985.

Interest expense was $79.8 million in 1986, compared to $86.4 million in 1985 and $116.3 million in 1984.

Income Taxes: Provision for income taxes was $265.1 million, excluding an extraordinary expense item, in 1986, $247.1 million in 1985 and $244.1 million in 1984. The Tax Reform Act of 1986 repealed, with certain exceptions, the investment tax credit for property placed in service after 1985. As a result, investment tax credits claimed in 1986 totaled $4.9 million compared to $16.4 million in 1985 and $15.9 million in 1984. See page 28 for a further explanation of effective tax rates.

In subsequent years, the Act reduces the maximum marginal corporate tax rate, eliminates the preferential rate for a corporation's net capital gain, and imposes on corporations a new alternative minimum tax. In addition, the new legislation, among other things, eliminates the installment method of reporting with respect to revolving credit plans, eliminates the reserve method of computing deductions for bad debts, requires the capitalization of certain expenses as inventory costs and lengthens the cost recovery period for certain future real property additions.

The company's current liability for income taxes at January 31, 1987, includes $37.8 million and its deferred liability for income taxes includes $197.7 million from the deferral of gross margin on installment sales. In addition, the company's allowance for doubtful accounts amounted to $32.6 million at January 31, 1987. The one-time increase in the company's tax liability resulting from the repeal of the reserve method, and the requirement to capitalize certain expenses as inventory costs, will be prorated on the basis of the effective date provisions of the legislation, over four taxable years commencing with the company's 1987 fiscal year. Although the precise impact of the changes resulting from the new tax law have not yet been determined, the company believes that such changes will have a positive impact on results of operations beginning in 1987; a negative impact on cash flow in the late 1980s; and a positive impact on cash flow in the early 1990s.

The Financial Accounting Standards Board has proposed changes in the accounting for income taxes. The company has not quantified the potential effects of this exposure draft because any final standards may differ from those proposed.

Insurance: It has been the company's policy to purchase insurance to protect the assets and shareholders' equity against unusual and catastrophic losses. Although some risks, such as war and terrorism, are not insurable, most other risks have been insured, consistent with the exposure and costs.

Availability of certain lines of coverage is limited and costs have escalated significantly. In particular, the availability of earthquake coverage for California locations has been reduced sharply and the costs have become prohibitive. After an in-depth study, management has concluded that it is not in the shareholders' interest to purchase earthquake insurance for California locations at this time. This issue will continue to be reviewed on an ongoing basis.

Liquidity and Capital Resources

At year end, notes payable and long-term debt due within one year were $240.1 million. Total debt at year end was $1,032.0 million, compared to $824.3 million at year end 1985.

It is the company's policy to finance fixed capital and base level working capital with long-term debt and to reserve short-term debt for seasonal working capital needs. During 1986, the company issued $100 million, 9½% Sinking Fund Debentures due 2016 and $200 million, 7⅞% Notes due 1996, as part of shelf registration statements filed with the Securities and Exchange Commission in 1982 and 1986, respectively. During 1985, the company issued $100 million, 11% Euronotes due 1990 and $100 million, 10⅛% Euronotes due 1995.

In order to reduce future interest expense, in the third quarter of 1986, the company took advantage of currently favorable interest rates by repurchasing $160.3 million of 10¼% Sinking Fund Debentures due 2010, $86.1 million of 10⅝% Sinking Fund Debentures due 2013, $28.0 million of 11% Euronotes due 1990 and $22.6 million of 10⅛% Euronotes due 1995. These repurchases resulted in an extraordinary loss of $14.3 million, net of income tax benefit of $14.5 million.

On January 15, 1987, the company filed a new shelf registration statement with the Securities and Exchange Commission for up to $500 million of debt securities.

Quarterly Financial Data (unaudited)

(in millions, except per share data)			*1986*		
	First	*Second*	*Third*	*Fourth*	*Total Year*
Net Sales, including leased department sales	$2,278.4	$2,279.9	$2,514.1	$3,440.0	$10,512.4
Cost of sales, including occupancy and buying costs	1,669.3	1,704.0	1,845.3	2,480.0	7,698.6
Selling, publicity, delivery and administrative expenses	489.5	481.8	546.4	585.6	2,103.3
Provision for doubtful accounts	10.1	11.4	14.7	14.4	50.6
Interest expense — net	19.1	20.1	18.4	22.2	79.8
Unusual items — net	—	—	(9.5)	22.6	13.1[1]
Total costs and expenses	2,188.0	2,217.3	2,415.3	3,124.8	9,945.4
Income Before Income Taxes and Extraordinary Item	90.4	62.6	98.8	315.2	567.0
Federal, state and local income taxes	43.0	28.1	50.0	144.0	265.1
Income Before Extraordinary Item	47.4	34.5	48.8	171.2	301.9
Extraordinary item — net of tax	—	—	(14.3)	—	(14.3)[2]
Net Income	$ 47.4	$ 34.5	$ 34.5	$ 171.2	$ 287.6
Earnings Per Share of Common Stock:					
Income before extraordinary item	$ .48	$ .35	$ .50	$ 1.82[3]	$ 3.12
Extraordinary item	—	—	(.15)	—	(.15)
Net Income	$ .48	$ .35	$ .35	$ 1.82	$ 2.97
Fully Diluted Earnings Per Share:					
Income before extraordinary item	$ .48	$ .35	$ .49	$ 1.77	$ 3.05
Extraordinary item	—	—	(.14)	—	(.14)
Net Income	$ .48	$ .35	$ .35	$ 1.77	$ 2.91
Dividends Per Share	$ .335	$ .335	$ .335	$ .335	$ 1.34
Average Number of Shares Outstanding	97.7	97.9	97.7	94.2	96.9

(in millions, except per share data)			*1985*		
	First	*Second*	*Third*	*Fourth*	*Total Year*
Net Sales, including leased department sales	$2,187.4	$2,196.6	$2,367.9	$3,226.1	$ 9,978.0
Cost of sales, including occupancy and buying costs	1,605.5	1,652.6	1,723.3	2,333.3	7,314.7
Selling, publicity, delivery and administrative expenses	469.0	464.8	503.1	525.6	1,962.5
Provision for doubtful accounts	8.5	10.4	13.1	13.6	45.6
Interest expense — net	21.7	21.3	22.1	21.3	86.4
Unusual items — net	(13.1)	—	—	48.2	35.1[1]
Total costs and expenses	2,091.6	2,149.1	2,261.6	2,942.9	9,444.3
Income Before Income Taxes	95.8	47.5	106.3	284.1	533.7
Federal, state and local income taxes	45.8	22.4	48.8	130.1	247.1
Net Income	$ 50.0	$ 25.1	$ 57.5	$ 154.0	$ 286.6
Earnings Per Share of Common Stock	$ .51	$ .26	$ .59	$ 1.58[3]	$ 2.94
Fully Diluted Earnings Per Share	$ .50	$ .25	$ .58	$ 1.54	$ 2.87
Dividends Per Share	$ .3175	$ .3175	$ .3175	$ .3175	$ 1.27
Average Number of Shares Outstanding	97.4	97.6	97.6	97.6	97.6

[1]The unusual items are discussed in detail on page 25.
[2]The extraordinary item is discussed in detail on page 25
[3]Earnings include credits of $3 million in 1986 and $7 million in 1985 resulting from the application of the LIFO method of accounting for inventories
Earnings per share computed separately for each period
All share and per share data reflect the 2-for-1 common stock split on April 13, 1987.

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Federated Department Stores, Inc.

Five-Year Operating Data

By Business Segment

	1986	
(in millions)	*Amount*	*Percent of Total*
Net Sales		
Department stores	$ 6,974.3	66.3%
Mass merchandising	969.2	9.2
Supermarkets	2,045.7	19.5
Other	523.2	5.0
Total	$10,512.4	100.0%
Operating Profit		
Department stores	$ 628.7	88.2%
Mass merchandising	31.8	4.5
Supermarkets	59.2	8.3
Other	(6.9)	(1.0)
Total	712.8	100.0%
Central office costs and other non-operating items	52.9	
Interest expense	86.2	
Interest capitalized	(6.4)	
Unusual items — net	13.1(1)	
Income Before Income Taxes and Extraordinary Item	567.0	
Income taxes	265.1	
Income Before Extraordinary Item	301.9	
Extraordinary item — net of tax	(14.3)(2)	
Net Income	$ 287.6	
Depreciation and Amortization		
Department stores	$ 179.8	70.4%
Mass merchandising	21.1	8.2
Supermarkets	34.7	13.6
Other	15.2	5.9
Central office	4.8	1.9
Total	$ 255.6	100.0%
Capital Expenditures		
Land	$ 7.4	1.5%
Building, fixtures and equipment		
Department stores	266.3	51.7
Mass merchandising	12.5	2.4
Supermarkets	158.6	30.8
Other	66.4	12.9
Central office	3.6	.7
Total	$ 514.8	100.0%
Number of Stores		
Department stores	225	
Mass merchandising	[illegible]	
Supermarkets	127	
Other	203	
Total	631	
Gross Square Feet of Store Space *(thousands)*		
Department stores	45,[illegible]70	
Mass merchandising	[illegible],239	
Supermarkets	5,324	
Other	2,769	
Total	61,602	

Notes:

(1) Unusual items consist of equity in gain on sale of interest in shopping centers ($18.6 million net of taxes) and provision for reorganization expense ($31.7 million before taxes).
(2) Extraordinary item represents loss on early extinguishment of debt, net of taxes.
(3) Unusual items consist of gain on sale of Boston Store division ($13.1 million before taxes) and provision for reorganization expense ($48.2 million before taxes).
(4) Unusual items consist of equity in gain on sale of shopping centers, net of taxes.
(5) Unusual items consist of equity in gain on sale of shopping centers ($40.1 million net of taxes), a loss provision for the liquidation of the Bullock's Northern California division ($12.0 million before taxes) and a capital contribution to the Federated Department Stores Foundation ($15.0 million before taxes).

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1985 Amount	1985 Percent of Total	1984 Amount	1984 Percent of Total	1983 Amount	1983 Percent of Total	1982 Amount	1982 Percent of Total
$6,684.7	67.0%	$6,566.6	67.9%	$5,970.3	66.7%	$5,412.2	70.3%
1,057.9	10.6	1,059.9	11.0	991.1	11.4	822.9	10.7
1,813.6	18.2	1,711.3	17.7	1,473.7	17.0	1,275.7	16.6
421.8	4.2	334.5	3.4	254.5	2.9	188.1	2.4
$9,978.0	100.0%	$9,672.3	100.0%	$8,689.6	100.0%	$7,698.9	100.0%
$ 621.9	87.5%	$ 619.7	89.5%	$ 637.5	87.2%	$ 494.0	87.5%
39.0	5.5	31.8	4.6	39.1	5.4	23.4	4.1
58.7	8.3	43.9	6.3	49.2	6.7	37.0	6.6
(9.5)	(1.3)	(2.7)	(.4)	5.3	.7	10.0	1.8
710.1	100.0%	692.7	100.0%	731.1	100.0%	564.4	100.0%
54.9		45.6		42.9		45.9	
90.5		119.9		104.8		106.8	
(4.1)		(3.6)		(4.5)		(10.0)	
35.1[3]		(42.6)[4]		(13.1)[5]		—	
533.7		573.4		601.0		421.7	
247.1		244.1		262.7		188.9	
286.6		329.3		338.3		232.8	
—		—		—		—	
$ 286.6		$ 329.3		$ 338.3		$ 232.8	
$ 163.7	71.0%	$ 155.3	70.2%	$ 147.7	71.6%	$ 134.6	74.2%
21.5	9.3	23.3	10.5	21.8	10.6	17.2	9.5
29.9	13.0	29.3	13.3	26.0	12.6	19.9	11.0
10.6	4.6	7.1	3.2	5.3	2.6	3.9	2.1
4.9	2.1	6.1	2.8	5.4	2.6	5.9	3.2
$ 230.6	100.0%	$ 221.1	100.0%	$ 206.2	100.0%	$ 181.5	100.0%
$ 10.0	2.7%	$ 9.0	3.0%	$ 5.4	1.8%	$ 38.1	9.1%
243.4	66.9	207.6	70.1	199.7	66.4	214.5	51.0
11.7	3.2	15.7	5.3	12.4	4.1	60.8	14.4
36.8	10.1	24.6	8.3	66.7	22.2	77.2	18.3
59.0	16.2	33.6	11.4	11.2	3.6	19.9	4.7
3.3	0.9	5.7	1.9	5.5	1.9	10.5	2.5
$ 364.2	100.0%	$ 296.2	100.0%	$ 300.9	100.0%	$ 421.0	100.0%
217		225		214		212	
76		81		82		80	
127		126		127		118	
184		157		128		98	
604		589		551		508	
44,068		45,592		44,121		44,759	
8,259		8,812		8,900		8,717	
4,607		4,537		4,524		4,028	
2,209		1,578		1,188		932	
59,143		60,519		58,733		58,436	

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Consolidated Eleven-Year Table of Selected Financial Data

(dollars in millions, except per share data)	*1986*
Operations	
Net sales	$10,512.4
Net income, including extraordinary item	287.6
Net income, excluding extraordinary item	301.9
Net income per share of common stock, including extraordinary item[1,6]	2.97
Net income per share of common stock, excluding extraordinary item[1,6]	3.12
Net income — fully diluted, per share of common stock, including extraordinary item[6]	2.91
Net income — fully diluted, per share of common stock, excluding extraordinary item[6]	3.05
Cash from operations	591.6
Cash dividends per share of common stock[6]	1.34
Depreciation and amortization	255.6
Year-End Financial Position	
Assets	$ 5,687.7
Working capital	1,495.6
Long-term debi	791.9
Shareholders' equity	2,662.6
Financial Ratios	
Percent of sales	
Income before income taxes, excluding extraordinary item	5.4%
Net income, including extraordinary item	2.7%
Net income, excluding extraordinary item	2.9%
Return on shareholders' equity, including extraordinary item[2]	10.7%
Return on shareholders' equity, excluding extraordinary item[2]	11.2%
Current ratio	1.93:1
Debt-to-equity ratio[3]	.30:1
Price earnings ratio, including extraordinary item[4,6]	
High	16.9
Low	11.1
Price earnings ratio, excluding extraordinary item[4,6]	
High	16.1
Low	10.5
Other Information	
Capital expenditures	$ 51[illegible]
Market price per share of common stock (high-low)[6]	$ [illegible]-33
Shareholders' equity per share of common stock[5,6]	$ 28.54
Number of stores (all segments) at year end	631
Square feet of gross store space (millions)	61.6
Number of employees (thousands)	133.0
Average number of shares outstanding (millions)[6]	96.9
Number of shareholders (thousands)	20.7

Notes:

(1) Based on average number of shares outstanding during the year.
(2) Based on average of shareholders' equity at beginning and end of year.
(3) Long-term debt divided by shareholders' equity.
(4) Based on high and low market prices during the year.
(5) Based on number of shares outstanding at end of year.
(6) Restated to reflect the 2-for-1 common stock split on April 13, 1987.

1985	1984	1983	1982	1981	1980	1979	1978	1977	1976
$9,978.0	$9,672.3	$8,689.6	$7,698.9	$7,067.7	$6,300.7	$5,806.4	$5,404.6	$4,923.4	$4,446.6
286.6	329.3	338.3	[illegible]	258.3	276.8	202.3	196.7	195.1	166.6
286.6	329.3	338.3	[illegible]	258.3	276.8	202.3	196.7	195.1	166.6
2.94	3.38	3.48	2.40	2.66	2.86	2.09	2.04	2.03	1.73
2.94	3.38	3.48	2.40	2.66	2.86	2.09	2.04	2.03	1.73
2.87	3.30	[illegible]	2.33	2.59	2.77	2.03	1.98	1.97	1.69
2.87	3.30	3.39	2.33	2.59	2.77	2.03	1.98	1.97	1.69
574.8	565.1	541.0	457.1	456.1	382.5	360.2	332.8	317.0	274.4
1.27	1.20	1.10	1.05	.95	.90	.85	.81¼	.74¾	.69¼
230.6	[illegible]	206.2	181.5	156.9	148.2	129.5	116.4	102.1	89.5
$5,353.6	$5,271.4	$4,901.3	$4,574.3	$4,096.9	$3,575.5	$3,295.3	$2,956.4	$2,632.0	$2,389.1
1,535.7	1,307.6	979.2	760.7	723.3	782.6	542.9	581.5	581.4	485.6
781.5	710.7	631.5	699.3	553.2	552.8	361.3	359.4	371.8	329.9
[illegible]	2,544.1	2,333.4	2,105.1	1,980.7	1,815.9	1,623.2	1,501.6	1,382.3	1,258.1
5.3%	5.9%	6.9%	5.5%	6.7%	7.0%	6.4%	6.9%	7.7%	7.3%
2.9%	3.4%	3.9%	3.0%	3.7%	4.4%	3.5%	3.6%	4.0%	3.7%
2.9%	3.4%	3.9%	3.0%	3.7%	4.4%	3.5%	3.6%	4.0%	3.7%
10.9%	13.5%	15.2%	11.4%	13.6%	16.1%	12.9%	13.6%	14.8%	13.8%
10.9%	13.5%	15.2%	11.4%	13.6%	16.1%	12.9%	13.6%	14.8%	13.8%
2.03:1	1.77:1	1.58:1	1.49:1	1.53:1	1.75:1	1.47:1	1.61:1	1.77:1	1.70:1
.29:1	.28:1	.27:1	.33:1	.28:1	.30:1	.22:1	.24:1	.27:1	.26:1
12.2	8.4	9.9	11.3	8.2	6.3	7.9	10.1	10.9	17.3
9.1	6.3	6.7	7.5	5.6	3.7	6.1	7.4	8.1	12.1
12.2	8.4	9.9	11.3	8.2	6.3	7.9	10.1	10.9	17.3
9.1	6.3	6.7	7.5	5.6	3.7	6.1	7.4	8.1	12.1
$ 364.2	$ 295.2	$ 300.9	$ 421.0	$ 388.2	$ 313.3	$ 321.7	$ 240.0	$ 223.7	$ 225.3
$ 36-27	$ 28-21	$ 35-23	$ 27-18	$ 22-15	$ 18-11	$ 17-13	$ 21-15	$ 22-17	$ 30-21
$ 27.75	$ 26.15	$ 24.02	$ 21.72	$ 20.45	$ 18.75	$ 16.81	$ 15.58	$ 14.36	$ 13.09
604	589	551	508	369	356	346	337	323	303
59.1	60.5	58.7	58.4	53.9	52.3	50.0	48.6	46.4	43.9
132.5	127.7	123.7	124.6	120.8	116.6	112.5	113.2	110.0	108.0
97.6	97.3	97.2	97.2	97.0	96.8	96.6	96.4	96.2	96.2
21.8	22.5	23.0	23.5	25.0	25.3	25.8	27.3	28.6	28.8

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Board of Directors

Charlotte Beers
member of the board of directors since 1980; chairman and chief executive officer of Tatham-Laird & Kudner.

John W. Burden III
member of the board of directors since 1985; vice chairman of Federated.

Philip Caldwell
member of the board of directors since 1984; senior managing director of Shearson Lehman Brothers Inc.; former chairman and chief executive officer of Ford Motor Company; also on the boards of Digital Equipment Corporation, Ford Motor Company, Kellogg Company, Shearson Lehman Brothers Holdings Inc., Russell Reynolds Associates, Inc. and American Guarantee and Liability Insurance Co.

Robert A. Charpie
member of the board of directors since 1984; chairman of Cabot Corporation; also on the boards of Cabot Corporation, Champion International Corporation, Northwest Airlines, Inc. and Schlumberger Limited.

James L. Ferguson
member of the board of directors since 1979; chairman of the executive committee of General Foods Corporation; also on the boards of The Chase Manhattan Bank, N.A., The Chase Manhattan Corporation and Philip Morris Companies, Inc.

Howard Goldfeder
member of the board of directors since 1976; chairman and chief executive officer of Federated; also on the boards of Connecticut Mutual Life Insurance Company, J.P. Morgan & Co. Incorporated and Morgan Guaranty Trust Company of New York.

Howard W. Johnson
member of the board of directors since 1966; honorary chairman of The Corporation of the Massachusetts Institute of Technology; also on the boards of Champion International Corporation, E.I. duPont de Nemours and Company, John Hancock Mutual Life Insurance Company, J.P. Morgan & Co. Incorporated and Morgan Guaranty Trust Company of New York.

Reginald H. Jones
member of the board of directors since 1980; retired chairman of the board of General Electric Company; also on the boards of ASA Ltd., Bethlehem Steel Corporation, General Signal Corporation, General Re Corporation and Merck & Co., Inc.

Daniel W. LeBlond
member of the board of directors since 1975; chairman of LeBlond Makino Machine Tool Company; also on the boards of Eagle-Picher Industries, Inc. and The Ohio National Life Insurance Company.

Norman S. Matthews
member of the board of directors since 1984; president and chief operating officer of Federated; also on the board of Progressive Corporation.

G. William Miller
re-elected to the board of directors in 1981; member from 1976 to 1978; chairman of G. William Miller & Co., Inc.; former U.S. Secretary of Treasury and former chairman of the Federal Reserve Board; chairman and a director of Private Satellite Network, Inc.; also on the boards of Georgetown Industries, Inc., Repligen Corporation and International Power Machines Corporation.

Peter G. Peterson
member of the board of directors since 1973; former assistant to the U.S. President for Economic Affairs and U.S. Secretary of Commerce, chairman of The Blackstone Group; also on the boards of Minnesota Mining and Manufacturing Company and Rockefeller Center Properties, Inc.

Donald J. Stone
member of the board of directors since 1980, vice chairman of Federated; also on the board of MCorp.

Will M. Storey
member of the board of directors since 1982; vice chairman of Federated.

Marvin S. Traub
member of the board of directors since 1979; chairman of Bloomingdale's and vice president of Federated.

Clifton R. Wharton, Jr.
member of the board of directors since 1985; chairman and chief executive officer of Teachers Insurance and Annuity Association – College Retirement Equities Fund; also on the boards of Ford Motor Company and Time Incorporated.

Kathryn D. Wriston
member of the board of directors since 1975; member of the Bar of the State of New York; also on the board of Santa Fe Southern Pacific Corporation and a trustee of Northwestern Mutual Life Insurance Company.

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Committees of the Board

Executive Committee

This committee, composed of six members of the board of directors, may exercise all the powers of the board of directors except the powers to declare dividends, amend the by-laws, elect officers or change prior board actions. Members of the committee are Howard Goldfeder, Chairman; Norman S. Matthews; Daniel W. LeBlond, Donald J. Stone, Will M. Storey and Kathryn D. Wriston.

Audit Committee

This committee, composed of directors who are not employees of the company, recommends the independent auditors to be employed by the company and consults with these auditors as necessary. It reviews the findings and recommendations of the auditors, meets from time to time with the company's internal audit staff and makes suggestions to the board when needed. Members of the committee are Reginald H. Jones, Chairman; Philip Caldwell; Robert A. Charpie; James L. Ferguson; Daniel W. LeBlond and Kathryn D. Wriston.

Nominating Committee

This committee, composed of directors who are not employees of the company, makes recommendations to the board regarding the composition and size of the board. It reviews suggestions from shareholders and others as to candidates for the board and proposes to the full board the slate of directors for submission to the shareholders at the annual meeting. Members of the committee are Howard W. Johnson, Chairman; Charlotte Beers; Robert A. Charpie; Peter G. Peterson and Clifton R. Wharton, Jr.

Stock Option and Management Compensation Review Committee

This committee, composed of directors who are not employees of the company, determines and recommends to the board the remuneration arrangements for the chairman, reviews and approves remuneration arrangements for other senior management, grants benefits under the company's stock option and restricted stock plans, and reviews the quality and depth of the management organization of the company. Members of the committee are G. William Miller, Chairman; James L. Ferguson; Howard W. Johnson; Reginald H. Jones and Peter G. Peterson.

Executives Deferred Compensation Plan and Retirement Plans Committee

This committee, composed of directors who are not employees of the company, oversees generally the administration, adequacy and performance of the company's deferred compensation and retirement plans. Members of the committee are Daniel W. LeBlond, Chairman; Charlotte Beers; Philip Caldwell; G. William Miller; Clifton R. Wharton, Jr. and Kathryn D. Wriston.

Officers

Howard Goldfeder
Chairman and
Chief Executive Officer

Norman S. Matthews
President and
Chief Operating Officer

John W. Burden III
Vice Chairman

Donald J. Stone
Vice Chairman

Will M. Storey
Vice Chairman and
Chief Financial Officer

Allen I. Questrom
Executive Vice President

Thomas G. Cody
Senior Vice President

Russell S. Davis
Senior Vice President

James M. Leahy
Senior Vice President and
Treasurer

Avner M. Porat
Senior Vice President

James B. Selonick
Senior Vice President

Phyllis S. Sewell
Senior Vice President

James N. Andress
Vice President

Boris Auerbach
Vice President and
Secretary

Dennis J. Broderick
Vice President

Jack Brown
Vice President and
Controller

Walter A. Couper
Vice President

Samuel E. Dyer
Vice President

Daryl K. Mangan
Vice President

H. Stewart Rose
Vice President

Paul P. Thiemann
Vice President

Marvin S. Traub
Vice President

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Shareholder Information

Corporate Office
7 West Seventh Street
Cincinnati, Ohio 45202
Telephone (513) 579-7000

Annual Meeting
The Annual Meeting of Shareholders is scheduled for 11 a.m. Thursday, May 28, 1987, at the corporate office.

Dividend Investment Service
Federated shareholders may elect to increase their investment in the corporation by requesting that their dividends be invested automatically in additional shares. They also may elect to purchase shares by making monthly cash deposits. There is no commission or charge for this service. Participation is voluntary and may be terminated at any time. For information write to Manufacturers Hanover Trust Company, Dividend Reinvestment Department, P.O. Box 24935, Church Street Station, New York, New York 10249.

SEC Form 10-K Report
A copy of the company's annual report to the Securities and Exchange Commission on Form 10-K is available, without charge, upon request to:
Director of Investor Relations
Federated Department Stores, Inc.
7 West Seventh Street, Cincinnati, Ohio 45202

Transfer Agents and Registrars
Manufacturers Hanover Trust Company
Stock Transfer Department
P.O. Box 24935
Church Street Station
New York, New York 10249

The First National Bank of Chicago
One First National Plaza, Suite 0123
Chicago, Illinois 60670

Shareholder Assistance
For assistance regarding individual stock records and transactions, contact:

Manufacturers Hanover Trust Company
Stock Transfer Department
P.O. Box 24935
Church Street Station
New York, New York 10249
Telephone (212) 613-7147

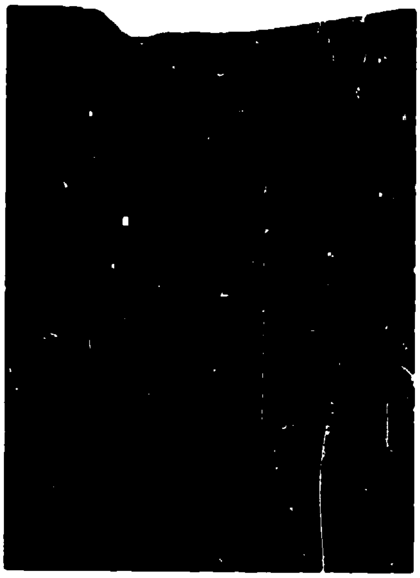
Common Stock
The common stock of Federated Department Stores, Inc., is listed on the New York Stock Exchange (trading symbol FDS) which is also the principal market on which the shares are traded. The approximate number of Federated common shareholders of record, as of March 31, 1987, was 20,700.

The quarterly price range of Federated stock and dividends per share on a post-split basis are shown in the following schedule:

	1986			1985		
	Stock Prices			Stock Prices		
Quarter	*High*	*Low*	*Dividend Per Share*	*High*	*Low*	*Dividend Per Share*
First	$41 5/8	$32 7/8	$ .335	$32 1/16	$26 7/8	$ .3175
Second	44 7/8	36 1/4	.335	32 15/16	28 1/4	.3175
Third	48 15/16	38 13/16	.335	34 7/16	26 7/8	.3175
Fourth	50 3/16	41 5/16	.335	35 7/8	31 1/4	.3175
Year	$50 3/16	$32 7/8	$1.34	$35 7/8	$26 7/8	$1.27

Dividend
In March 1987, the Board of Directors increased the quarterly dividend by 10.4% and declared a 2-for-1 stock split of its common stock in the form of a 100 percent stock dividend.

The new quarterly dividend, increased from 67 cents to 74 cents per share of common stock on a pre-split basis, will be payable on April 24, 1987 to shareholders of record April 10, 1987. This was the 226th consecutive dividend paid since October 1931. New shares from the stock split will be distributed May 11, 1987 to shareholders of record April 13, 1987.

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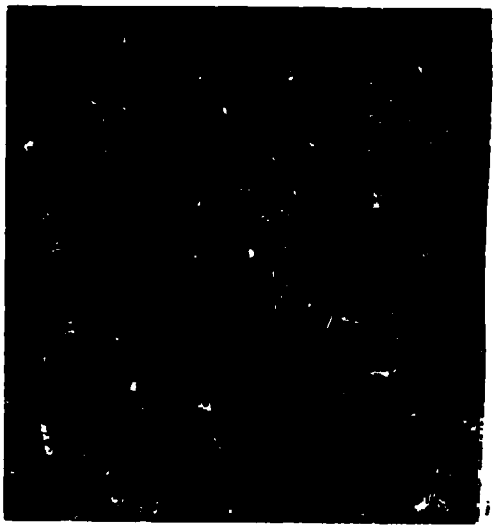

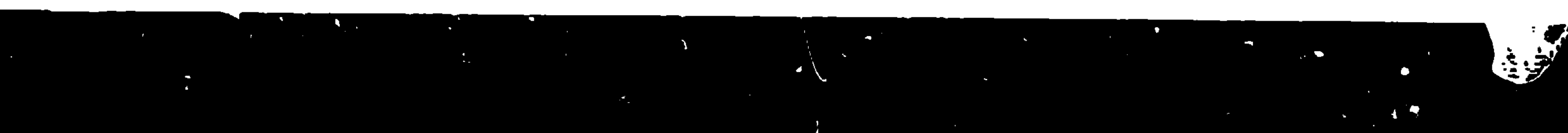

Exhibit 25

POWERS OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each of the undersigned directors of FEDERATED DEPARTMENT STORES, INC. (the "Company"), a Delaware corporation, does hereby constitute and appoint BORIS AUERBACH and BARBARA E. ULLMAN, or either of them, their true and lawful attorneys and agents to do any and all acts and things and execute any and all instruments which said attorneys and agents, or either of them, may deem necessary or advisable or which may be required to enable said Company to comply with the Securities Exchange Act of 1934, as amended, and any rules, regulations or requirements of the Securities and Exchange Commission in respect thereof, in connection with the filing with the Securities Exchange Commission and the New York Stock Exchange of the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 1987, including specifically, but without limiting the generality of the foregoing, the power and authority to sign in the names and on behalf of the undersigned directors of said Company in their capacities as directors, the said Annual Report on Form 10-K and any and all amendments and supplements and any other instruments or documents fi[illegible] as a part of or in connection with said Annual Report on Form 10-K, amendments or supplements; and each of the undersigned does hereby ratify and confirm all that said attorneys and agents or either of them, shall do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, each of the undersigned has subscribed these presents this 26th day of March, 1986.

CHARLOTTE BEERS

John W. Burden III
JOHN W. BURDEN III

Philip Caldwell
PHILIP CALDWELL

Robert A. Charpie
ROBERT A. CHARPIE

JAMES L. FERGUSON

HOWARD GOLDFEDER

Howard W. Johnson
HOWARD W. JOHNSON

Reginald H. Jones
REGINALD H. JONES

Daniel W. LeBlond
DANIEL W. LeBLOND

NORMAN S. MATTHEWS

G. WILLIAM MILLER

Peter G. Peterson
PETER G. PETERSON

DONALD J. STONE

Will M. Storey
WILL M. STOREY

Marvin S. Traub
MARVIN S. TRAUB

Clifton R. Wharton Jr.
CLIFTON R. WHARTON JR.

Kathryn D. Wriston
KATHRYN D. WRISTON

END

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